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ADEQUACY OF FEDERAL ENFORCEMENT OF STEEL IMPORT PROGRAM

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ORIGINAL

HEARING BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES NINETY-NINTH CONGRESS SECOND SESSION

APRIL 4, 1986

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ADEQUACY OF FEDERAL ENFORCEMENT OF STEEL IMPORT PROGRAM

FRIDAY, APRIL 4, 1986

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER, AND
MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Pittsburgh, PA.

The subcommittee met, pursuant to notice, at 9 a.m., in the Commissioners' Hearing Room, Allegheny Court House, Pittsburgh, PA, Hon. Doug Barnard, Jr. (chairman of the subcommittee) presiding.

Present: Representatives Doug Barnard, Jr., Joe Kolter, and Ben Erdreich.

Also present: Representatives Joseph M. Gaydos, Doug Walgren, and Thomas J. Ridge.

Staff present: Theodore J. Jacobs, chief counsel.

OPENING STATEMENT OF CHAIRMAN BARNARD

Mr. BARNARD. The Committee on Government Operations' Subcommittee on Commerce, Consumer, and Monetary Affairs will now come to order.

Today the Commerce, Consumer, and Monetary Affairs Subcommittee begins an examination of the adequacy of Federal enforcement of laws and agreements imposing restraints on steel imports. This inquiry follows the subcommittee's recent review of textile and apparel imports, and there are some remarkable similarities between the two industries and enforcement problems, as well as the impact of imports on domestic industries and communities. In both the textile and steel areas we see struggling but relatively healthy domestic industries pushed almost beyond their capabilities to endure by ever-increasing imports from nations with cheaper labor and subsidized and protected markets. The difficulties of our domestic industries arise not because they are technologically backward. Both our textile and steel industries have become among the most productive in the world.

Over 15 months ago, in September 1984, President Reagan announced the policy of limiting steel imports into the United States in order to deal with the ever-rising share of the market absorbed by imports. This field hearing in Pittsburgh today is the first congressional oversight hearing on the steel program since it was implemented in late 1984. At that time the President directed the U.S. Trade Representative to enter into voluntary restraint agreements with foreign suppliers of steel, and establish a target of 18.5

percent of U.S. market share for imports of finished steel products. Subsequently, Congress passed the Steel Import Stabilization Act which established an import market share target for all steel products of 20.2 percent for the 5 years of the President's program. Since 1984 the U.S. Trade Representative has negotiated 18 voluntary restraint agreements with major steel-supplying countries in an effort to reduce their shares of the U.S. steel market.

The targets of the steel programs have not been met. Only about half the desired reduction in the steel import market share is likely to be realized under the program as it presently is operating. This missed opportunity translates into thousands of jobs and the well-being of hundreds of localities throughout the United States. Employment in the steel industry has been declining and imports account for a significant portion of this decline. If the targets had been reached an estimated 54,000 jobs could have resulted, and 2.8 million tons of steel, now manufactured abroad and sold in the United States, would have been made here.

It is still not too late to reverse this data to reach the President's and Congress' targets for steel imports. There are a few suppliers without agreements, and there is some evidence that the negotiated agreements are not always strictly adhered to. There is also some evidence that transshipment schemes, similar to those encountered by the subcommittee in its recent investigation of textile and apparel imports, may be creating enforcement difficulties. For these reasons, the subcommittee intends to examine the steel import program in detail in an effort to determine why the program has not achieved this goal, and what can be done to get us back on target. Our first step in the process will be to hear today from some of the major steel producers and from the steel union. Later in Washington the subcommittee intends to hear from the U.S. Trade Representative, the Commerce Department, the Customs Service, and others, about their roles in establishing and enforcing steel import restraints or agreements.

Joining our panel today is a member of our committee, Mr. Joe Kolter. Also joining us later today is a member of the committee, Mr. Ben Erdreich from Birmingham, AL, who represents a steel area. Also joining us some time today as a guest of the committee, will be Mr. Joe Gaydos, a Representative also from Pennsylvania.

We also have with us today a colleague of ours, a fellow member of the Banking Committee on which I also serve, Representative Tom Ridge. We're glad to have you with us here today, Tom.

I've asked each of these members if they would like to have an opening statement, and at this time I will recognize Mr. Kolter.

Mr. KOLTER. Thank you very much, Mr. Chairman.

First of all, I'd like to welcome you from sunny Georgia to the most livable city in the United States, Pittsburgh.

Mr. BARNARD. Thank you. You didn't say sunny though, did you?

Mr. KOLTER. It was sunny when you came in yesterday.

Mr. BARNARD. A day late. It doesn't look like it's going to stay that way.

Mr. KOLTER. Mr. Chairman, ladies and gentlemen, Pittsburgh and western Pennsylvania have undergone wrenching economic change over the last decade. While the city of Pittsburgh has made a remarkable shift from being the steel city to a major corporate

headquarters city, the areas surrounding Allegheny County are just beginning to make that transition.

In 1984 the President and the Congress working closely with the domestic steel industry and the union, agreed to devise a program that would limit steel imports to about 20.2 percent for steel products. The administration's program has been in place for over a year. The program is well constructed and has clearly lowered the amount of foreign steel entering this country, but the program is not achieving the target agreed upon by the President and Congress. Instead, steel imports were about 25.3 percent in 1985.

Several economic forecasts expect imports to average slightly over 23 percent in 1986 and beyond. A few percentage points doesn't sound like much, but it is. If one assumes that domestic steel demand totals about 100 million tons a year, 3 percentage points captured by imports translates into a major integrated steel-making facility, and several thousand jobs.

Just last year LTV Steel idled the huge Aliquippa Works located in my congressional district in Beaver County. The company then proceeded to take out full-page ads in national newspapers calling it the "Aliquippa tragedy." The company blamed imports for the devastating layoffs at Aliquippa. The question I have is, would attaining the 20.2-percent target have saved the Aliquippa Works?

I would like to thank you, Mr. Chairman, for calling these hearings in the field. They are especially significant in that this marks the first congressional hearings on the effectiveness of the Steel Import Restraint Program.

Today we will hear from the leaders of the domestic steel industry and the president of the Steelworkers' Union. I hope to learn their views on the steel program.

In closing, I would like to thank my colleagues for sitting with the subcommittee. Their presence demonstrates the importance of this issue in western Pennsylvania and to our Nation.

I would also like to thank the Allegheny County Commission for making this room available.

In addition, I would like to thank the Allegheny County sheriff and his deputies for providing the security.

Thank you, Mr. Chairman.

Mr. BARNARD. Thank you, Mr. Kolter.

We will now recognize Mr. Tom Ridge.

Mr. RIDGE. Thank you, Mr. Chairman. I appreciate the fact that your subcommittee has come to western Pennsylvania to investigate the effectiveness of the President's steel plan. I also appreciate that although I'm not a member of your subcommittee, that you permitted me to join you in this hearing as it is of such importance to our national economic health, as well as the economic future of Pennsylvania's 21st Congressional District.

We've all been concerned about the impact of high levels of steel imports in the domestic steel industry. Last month the import penetration level was 26.6 percent of the domestic market. That is a level well above—and I know I'm preaching to the choir—the 18.5 percent that was originally asked for by the steel industry, and the target figure of 20 percent, which included semifinished steel that President Reagan announced in September 1984. Part of the problem with the program involves the number of countries that are

not covered by the voluntary restraint agreement, and unfortunately it seems part of the problem involves the manner in which the administration defines or tends to identify the steel industry. Also we have to deal with the number of countries that have been very creative in developing ways to circumvent VRA's.

There are a number of small steel companies in my congressional district, Mr. Chairman, that make either one or two types of steel products, or that are involved in making specialty steel. These companies have had an extremely difficult time gaining the attention of the administration to ensure that they also gain some benefit from the VRA program. I'm concerned that the administration looks only to the larger integrated steel firms as the steel industry, and is willing to allow some of the smaller firms to be sacrificed to higher import penetration levels. This is a major concern to me and to the many steelworkers and steel companies in western Pennsylvania, and, in fact, it is a concern that is shared by many other small steel companies and their employees throughout this country. I have worked with several trade associations, but with one in particular, the committee on pipe and tube imports, that represents the interest of many of these smaller steel companies that had a very difficult time being recognized by the administration as players or participants, or important components of the VRA program. I think this is unfortunate for several reasons. We must remember that the smaller steel companies are major customers for our larger integrated steel firms, and that they indeed are often the most modern and most productive facilities in the steel industry. It's also interesting to note that the figures mentioned before of 18.5, 20, and 26, I know that group of companies would be happy to have anything that was close to that. The foreign penetration in their market is in excess of 50 percent.

It is also my understanding that the subcommittee shall look at the issue of transshipping of steel products to circumvent the VRA's as part of this hearing. This is a problem that seems to be growing, as many of the foreign exporters are looking for ways around the limits on their exports.

I know of two recent situations where the Brazilians tried to use Panama, and the Koreans tried to use Costa Rica, together with the Caribbean Basin Initiative, to ship some of these products into our country duty free no less, by using the CBI. Again, I'm very grateful to you, Mr. Chairman, for bringing your subcommittee to western Pennsylvania and taking the leadership role in oversight of this very, very important program. Thank you very much for that.

Mr. Chairman, due to prior commitments in his district, our colleague, and my neighbor, Congressman Bill Clinger, could not attend this hearing today. However, on his behalf I would like to submit for the record his testimony on steel imports from the European Economic Community and ask unanimous consent to do so.

Mr. BARNARD. Without objection, his entire testimony will be entered into the record.

[The prepared statements of Mr. Ridge and Mr. Clinger follow:]

OPENING STATEMENT OF CONGRESSMAN THOMAS J. RIDGE

Mr. Chairman: I appreciate the fact that your subcommittee has come to western Pennsylvania to investigate the effectiveness of the president's steel plan. I also appreciate that although I am not a member of your subcommittee that you permitted me to join in this hearing as it is of such importance to our national economic health and the economic future of my Congressional District (PA. 21).

We all have been concerned about the impact of high levels of steel imports on the domestic steel industry. Last month the import penetration level was 26.2 percent of the domestic market. That is a level well above the 18.5 percent that was originally asked for by the steel industry and the target figure of 20 percent, which included semi-finished steel, that President Reagan announced in September of 1984. Part of the problem with program involves the number of countries that are not covered by the voluntary restraint agreements (VRA's) and the way the administration tends to define the steel industry. Some countries have also been very creative in developing ways to circumvent their VRA.

There are a number of small steel companies in northwestern Pennsylvania that make one type of steel product or that make specialty steel. These companies have had a difficult time gaining the attention of the administration to ensure that they also gain some benefit from the VRA program. I'm concerned that the administration looks only to the large integrated steel firms as the "steel industry" and is willing to allow the smaller firms to be sacrificed to import penetration. This is a major concern to me and to the many steelworkers and steel companies in northwestern Pennsylvania. And in fact, it is a concern that is shared by many other small steel companies and their employees throughout the country. I have worked with a trade association -- the Committee on Pipe and Tube Imports -- that represents the interests of many of these smaller steel companies that have had a difficult time being recognized by the administration as players in the VRA program. This is unfortunate for several reasons. We must remember these smaller companies are the major customers for our large integrated steel firms and that they often are the most modern and productive facilities in the steel industry.

It is my understanding that the subcommittee is also looking into the issue of transshipping of steel products to circumvent the VRA's as part of this hearing. This is a problem that seems to be growing as many of the foreign exporters are looking for ways around the limits on their exports. One case in particular that I know of involved the shipment of steel tube from Korea to Costa Rica where it would have been coated, threaded, and then had a coupling added to it. The Koreans asked the Customs Service to admit this steel tube as Costa Rican rather than Korean. Fortunately, Commissioner Van Raab decided that this would still be Korean tube and denied to let it into the country as Costa Rican. However, there is a need to be vigilant as exporters will look for other ways to get around the VRA's.

Mr. Chairman, I look forward to hearing from the witnesses today and gaining their insight on how effective the restraints have been.

TESTIMONY OF

The Honorable William F. Clinger, Jr.

before the

Subcommittee on Commerce, Consumer
and Monetary Affairs

House Government Operations Committee

April 4, 1986

Mr. Chairman and members of the subcommittee, earlier this year I participated in the 26th meeting of members of the United States Congress and the European Parliament in Dublin, Ireland. While we discussed a wide range of issues of mutual importance, I was asked to address a subject directly related to this oversight hearing: steel trade between the United States and the European Community (EC). I would like to summarize for the subcommittee the major points of my remarks.

First of all, European steel-producing countries should not underestimate the strength of the protectionist sentiment that swept across America last year. The time has passed when Americans were willing to overlook the fact that our trading partners erect barriers to keep U.S. exports out of their markets while we keep our doors wide open in the interests of free trade. Too many American jobs have been lost for this situation to continue. Almost every American knows someone whose job was eliminated because of overwhelming import competition.

America's disenchantment with her trading partners is reflected in the legislation that has been introduced in the 99th Congress to reform our trade laws and protect certain industries, including steel. Some measures are more responsible than others but all would have the effect of slowing world trade to some degree.

In 1985 imported steel captured 25.2 percent of the U.S. market. This is an unacceptable figure in light of the agreements that the

U.S. negotiated between 1982 and 1985 with major steel producing countries. In 1982 the EC and the U.S. reached an agreement embodied in the Arrangement Concerning Trade in Certain Steel Products which provided for voluntary restraint of EC exports of carbon and alloy steel products to the U.S. Under separate agreement the EC stated that it did not expect its shipments of pipe and tube to exceed 5.9 percent of the U.S. market. Yet, in the two years following the agreement, EC shipments of steel pipe and tube captured 14 percent of the U.S. market. Last year imports of EC pipe and tube took more than 10 percent of the market.

Also under the 1982 agreement it was intended that the EC would supply up to 4.01 percent of the U.S. market for semifinished steel. It is now, unfortunately, clear that the EC has not made any meaningful effort to limit either tonnage or market share levels to achieve this target. In 1985 imports of semifinished steel were almost double the 1982 target level.

President Reagan's steel policy of limiting steel imports into the U.S. was welcome news to Pennsylvania in 1984. As we know, this program was intended to provide the domestic industry with five years of relative stability in terms of import market share so that domestic steel producers can undertake long-term adjustment and modernization.

We have been operating under the President's program for more than a year now. The results are not very encouraging and certainly not sufficient to discourage cries for additional protective measures.

Meanwhile, however, domestic producers have moved aggressively to install state of the art technologies. The steel industry has engaged in research and development efforts to find even more efficient ways to produce quality steel products, and producers and unions have worked together to negotiate cost-saving collective bargaining agreements.

The Congressional Research Service of the Library of Congress prepared estimates of hypothetical U.S. steel import market shares under the President's program for the years 1986-1989. The CRS estimates show that the penetration level will exceed 23 percent in each of those years. Such market penetration will exceed Congressional target limits by three percentage points. This means that the domestic steel industry will have to forego yearly production output valued at \$608 million (in constant 1972 dollars) compared with the situation in which the 20.2 percent target level was reached. Nearly 8,000 more workers in the steel industry, and about 18,700 more workers in other steel-related industries could be employed if the Congressional target could be achieved.

I concluded my remarks to my European counterparts with a stern warning that continued violations of the spirit and letter of our agreements could only provide fuel for additional protectionist legislation and could very well impact the upcoming congressional elections in favor of pro-protectionist candidates.

Finally, I would like to address the Administration's recent announcement that the President's steel program is working. Secretary of Commerce Malcolm Baldrige recently met with the Congressional Steel Caucus, of which I am a member, to discuss the program's success. I can only caution my colleagues that a month or so of reduced imports doesn't establish a stable downward trend. It is encouraging that foreign steel producers may have awakened to the fact that America will not tolerate the destruction of its basic industries, but I suspect that foreign steel producers may simply be waiting until we become lax in our vigil and once again increase their exports to the U.S. to unacceptable levels.

Mr. Chairman, I appreciate the opportunity you have allowed me to address this subcommittee in its investigation of the effectiveness of existing agreements limiting the imports of steel into the United States.

Mr. BARNARD. We also have with us this morning another very important member of our committee, who also represents a steel area in our country, but in a more southern location, Congressman Ben Erdreich of Birmingham, and if you have an opening statement we'll hear from you at this time.

Mr. ERDREICH. I do, Mr. Chairman.

I thank you, and especially I want to thank you for holding these hearings. I think they're very important. They, of course, relate to my own district in Birmingham, AL, but they relate to the steel industry across America.

I appreciate the fact that we are holding the first oversight hearings on the Steel Stabilization Act and the President's program to restrain steel imports.

Certainly we all know, and part of why we're here today, that the import penetration target of 20.2 percent, if you add the two categories together, is not being met here in 1986, and more alarming to me is that projections through 1989 when the program is set to expire, indicate that steel imports will continue to remain above this 20.2 percent level.

It's clear to me that additional action should be taken to reduce steel imports to an acceptable level of the U.S. domestic market. Since 1980 some 250,000 jobs in the steel industry have been lost, and in the Sixth District of Alabama, Jefferson County, AL, which I represent, over 10,000 jobs have been lost in that period of time. Further, it's estimated that U.S. raw steelmaking capacity will fall during this year, which will add new job loss in the industry. A recent report from the American Iron and Steel Institute, shows that the U.S. steel industry has lost shipments valued at more than \$15 billion in sales due to steel imports in excess of the President's penetration target, and, also, with domestic industry's debt approaching \$8 billion, it's clear to me that our steel manufacturers are continuing to experience severe problems that need to be dealt with.

However, it should be pointed out, Mr. Chairman, that over 50 percent of our industry's foreign competitors are government owned. Since 1980 producers in Europe alone have received over \$40 billion in direct government subsidies. Thus, many of the problems in our industry are directly related to the fact that our competitors abroad are engaging in unfair trade practices. In my view, we cannot allow this situation to go unchecked. Congress took action by passing the Steel Stabilization Act to ensure enforcement of the President's Voluntary Trade Agreement Program, and though the program has brought the levels down, further action is needed. I look forward to this hearing, Mr. Chairman, to elaborate and give us some insights on what needs to be done to improve the competitiveness of our industry, and ensure the long-term stability and continuation of this important aspect of our economy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Erdreich follows:]

REN ERDREICH
8TH DISTRICT ALABAMA

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OPENING STATEMENT OF CONGRESSMAN REN ERDREICH

Mr. Chairman, I appreciate the opportunity to be with you today in Pittsburgh to examine the effect of the President's program to restrain steel imports. Certainly, we all know that the import penetration target of 20.2 percent for all steel products has not been met. In fact, steel imports took 25.2 percent of the U.S. domestic market for 1985. More alarming, projections through 1989, when the President's program is set to expire, indicate that steel imports will continue to remain above the 20.2 percent level. Thus, it is clear that additional action must be taken if we are to reduce steel imports to an acceptable level of the U.S. domestic market.

Since 1980 some 250,000 jobs in the steel industry have been lost. In the 8th District of Alabama, which I represent, over 10,000 jobs have been lost. Further, it is estimated that total U.S. raw steel-making capacity will fall in 1986, adding new job loss in the industry. As the reports from the American Iron and Steel Institute show that the U.S. steel industry, which exports shipments valued at more than \$5 billion in sales due to steel imports to the U.S. of the U.S. is in a dire financial straits. Thus, with the President's program set to expire in 1989, the U.S. steel industry is in a dire financial straits.

However, it should be pointed out that over 50% of our industry's foreign competitors are government owned. Since 1980 producers in Europe alone have received over \$40 billion in direct government subsidies. Thus, it is clear that many of the problems in our industry are directly related to the fact that their competitors are engaging in unfair trade practices. In my view, we cannot allow this situation to go unchecked. Congress took action by passing the Steel Stabilization Act to ensure enforcement of the President's Voluntary Restraint Agreement program. Though the program has brought the level of imports downward, it is clear that further action is needed. I look forward to hearing from our panelist today on what we can do to improve the competitiveness of our steel industry.

Mr. BARNARD. Thank you, Mr. Erdreich.

Today we have a very distinguished panel of witnesses who have come to testify on this particular problem, and on the President's program, and our first witness this morning is the distinguished chairman of the board of the United States Steel Corp., Mr. David Roderick. And I'd like to ask Mr. Roderick if he would take a seat right here in front of us here.

Mr. Roderick, do you have an associate that will be with you this morning?

Mr. RODERICK. Yes; we do. We have Mr. Mulloney, and also Mr. Mangan, both of whom work in the trade area.

Mr. BARNARD. Mr. Mulloney, would you give us your full name, sir?

Mr. MULLONEY. Mr. Chairman, Peter B. Mulloney.

Mr. BARNARD. Peter B. Mulloney, we're delighted to have you with us this morning, and, sir?

Mr. MANGAN. John J. Mangan.

Mr. BARNARD. John J. Mangan. Well, we welcome you this morning. Customarily we always, without objection, include your entire testimony into the record. We respectfully ask that your testimony be abbreviated so that we can get within the time restraints with us today. We are hoping that we are going to complete this hearing somewhere around noon. And with six witnesses, and the question period, it might take right up to that time. But we do welcome you this morning, Mr. Roderick. We appreciate you being here. And we would like to hear from you at this time.

**STATEMENT OF DAVID M. RODERICK, CHAIRMAN OF THE BOARD,
UNITED STATES STEEL CORP., ACCOMPANIED BY PETER B.
MULLONEY, AND JOHN J. MANGAN**

Mr. RODERICK. Thank you, Mr. Chairman, and also members of the committee, and those who would have interest that are not on the committee, for taking time out of their schedule to be here.

I am David Roderick, chairman and chief executive officer of the United States Steel Corp. We're pleased to be here to discuss the President's steel program.

I think it's appropriate to have this hearing and review to see how that program is working. However, before I address it, I think it would be worthwhile to review briefly what the industry was facing in September 1984 when the President's program was announced.

In the trade area, steel imports were taking an ever-increasing share of the market. In 1980 they accounted for only 16 percent. In September 1984 they had risen to 25.8 percent, and in the third and fourth quarters of 1984, in individual months, and for the fourth quarter, they had reached 30 percent. Seeking relief under the existing unfair trade laws was clearly not enough to address the problem, and something more had to be done.

In an unprecedented joint effort the industry and the union began in late 1983 a major educational and legislative campaign in support of a 15-percent quota bill. And I can say on behalf of United States Steel, and I think also on behalf of the steelworkers, it was an extraordinary effort by all of us.

The House quota bill finally had 222 cosponsors, a majority of the democratically controlled House. It had the strong support of the House Steel Caucus, whose tireless efforts were key in getting the majority, and had the support of top Democratic leadership such as Tip O'Neill. But in the end, despite all of this, we could not even get the bill voted on by the Trade Subcommittee led by Democratic Chairman Sam Gibbons, or the full House Ways and Means Committee. We could not get the bill moving. Consequently, despite the fact that we had a majority in the House as sponsors, the bill didn't even get to the House floor to vote.

In the Senate there were 29 cosponsors on the quota bill. We couldn't even get a majority there despite the strong efforts of the Senate Steel Caucus and Senator Heinz and Senator Byrd. The Finance Committee wouldn't even give consideration to the bill. This, and the lack of support from the Republican Senate leadership, precluded a formal vote in the Senate.

As we entered September 1984, the industry was faced with bipartisan, legislative failure to address the steel trade problem.

In the meantime the industry and its employees were being ravaged. The AISI reports that companies' steel segment losses were \$3.5 billion for the period of 1980 to 1984. Average total employment, both wage and salaried, in September 1984, was down 39 percent from the end of 1980. Industry raw steel capability in 1984 was down 12 percent, 135 million tons from the 1980 level of 154 million tons.

This was the situation in which the industry found itself in September 1984 and the forecast of the future was much worse. Imports, if unrestrained, according to our projections, were going to rise to about 35 or 40 percent of the domestic steel market. Keep in mind they had already risen to 30 percent.

So when the opportunity arose to have the President's program, and with the inability of Congress to enact quota legislation facing us, we grabbed it. To put it bluntly, gentlemen, it was the only game in town. We tried all the others.

The President's program is dedicated to reducing the level of steel imports in the United States. Has it been successful in doing it? I think the answer is clearly yes.

As can be seen from the chart over to your left, gentlemen, which tracks the import amounts on a quarterly basis since 1980, the trend is clearly downward. You can see the broken line. That's when the President's program went into effect, and you can see since then, the trend has clearly been downward. And I don't think statistically there are many denying that fact.

Now, the program itself has target limits of 18.5 percent of the market for finished steel imports, and 1.7 million tons of semifinished steel, and overall penetration capability of about 20.5 percent. Again, I think it is the trend that is important, and as you can see from this chart which tracks the market penetration of imports as a percentage on a quarterly basis since 1980, the market penetration trend is clearly downward. So whether we're talking in absolute tons, or whether we're talking market share, clearly the trend is down.

Now, I realize there's been some disappointment expressed with the recent February imports, which I think has already been re-

ferred to, but again, despite such a monthly calculation, the trend is in the right direction. It's coming down. For the year 1984 imports show 26.4 percent. For the year 1985, 25.3; and for the first 2 months of 1986, an estimated 24. It is the view of some in the industry, as well as some congressional research review, that imports for the full year of 1986 would fall in the 22- to 23-percent range. I believe those numbers are probably realistic, and I think that's about where market share will fall for the total year of 1986.

Now, do I think the President's program will work better in the future, which I think is very important? What does the next 3 years hold for us? Well, I believe that the program will continue to improve. Why? Because it's basically in place, and because the administration is still working diligently to bring other countries such as Sweden under the program. And, lastly, but not unimportantly, the President himself is clearly committed to the program. It is his program. He can make it work if he wishes it to.

There are certain steps that I think can be taken to make the program work more efficiently. First, I think coverage has to be extended to countries such as Sweden, not yet under the program. If agreement can't be reached, then I think the United States should unilaterally impose restraint through appropriate executive action. And I think the executive branch is being aggressive. Currently they're talking about entering unilaterally a 301 against Sweden because of their restraint agreements with Europe, and I certainly would commend them in doing so.

Second, as has already been suggested from the Chair, we know of diversion attempts by some of these parties to the agreement, where they're trying to do things through Panama, Costa Rica, and other places, and I think that we need whatever action is necessary, legislative or whatever, to make sure that those parties to the agreement stick to it, and any diversion attempt be stamped out. And I think I feel just as strongly about that, Mr. Chairman, when it comes to textiles, and I hope as part of any omnibus trade bill, that some strong language can be put in that bill that would stop and discourage diversion in its tracks.

Certain segments of the steel industry, such as specialty steel, and certain limited product areas, may have to be given particular attention to make sure the program is being implemented and, of course, consistent with what is going on in their particular marketplace. In other words, we have a total steel program. I don't think we should ever lose sight that steel is made up of specialty steel, and special products. Where the program is not working for a special product, I think special attention should be given to that limited area.

In addition, Mr. Chairman, the President's program addressed other areas of concern. Little attention has been paid to them so far either by the administration and Congress, and when it has I'm afraid some of the attention we've gotten has been a negative result. The tax bill I think is a good example. The House-passed bill which we opposed takes away provisions which enhance our ability to invest and modernize. The bill currently before the Senate Finance Committee is not better and, as a matter of fact, in many aspects, is substantially worse.

Your letter of invitation, Mr. Chairman, asked about the future of the steel industry. We at United States Steel believe that Government policy should not hinder competitiveness in the marketplace, and we also believe that ultimately we have to be masters of our own fate. And over the past 6 years we have taken steps to ensure that. The most significant of these in United States Steel was the Marathon acquisition in late 1982, and the TXO merger this year. These were done to broaden our asset base and protect the corporation against the extreme cycle of the steel industry.

At this point I would like to address that situation for a moment. Primarily as a result of income from our Marathon Oil subsidiary, United States Steel Corp., as a whole, was profitable in 1984 and 1985. Thus, people assume we're a healthy corporation, and all our problems are behind us. While our steel sector showed an operating profit in both years, this is an illusion of health because of the method by which we account for financial and interest expense, and other charges on a consolidated basis.

If our steel and domestic iron ore operations were set up on a stand-alone company, as this chart shows over to your left, I think it's very interesting. As this chart shows on a stand-alone basis, our steel division would have a pretax loss every year since 1980 except 1981. And on the next chart a total for that period would have been pretax loss of \$2.4 billion. Remember, these are not figures that come out of our accounting department. These are figures certified to by Price Waterhouse, one of the Big 8 accounting concerns in this country. These are hardly numbers of a healthy steel company, and as you all know, they could be matched by LTV, Bethlehem, and our other major steel competitors.

So, times are still not good. We are faced with bleak results when we look at our steel sector. So how does our steel sector survive? How do we get out of this situation?

First, I think we must continue to improve our facilities. We must continue to modernize when there's feasibility despite the pressed financial conditions. Since 1980, we in United States Steel invested \$2.6 billion in our current steel and related resource business segment. And in addition to that, we have arranged an additional \$431 million in off balance sheet financing, innovative financing, for which we have a future obligation. We will have this Nation's largest continuous casting facility come onstream in our Gary, IN, works later this month, and we are contractually obligated to another caster in our Fairfield, AL, works, which we hope can get into the ground some time this late summer.

I should caution, however, that these types of investment become more and more difficult to do if we are unable to get an adequate, or any return, on those investments.

Three, we must respond to our customers' demand in the marketplace with innovative techniques, and not rely on traditional answers. United States Steel has embarked on joint ventures to ensure our viability on the west coast, and to respond to the special needs of some of our automotive customers.

And, finally, all of our costs, including labor, which is, we all know, 30 to 40 percent of our total cost, depending upon plant location, and the individual product, must always respond to the real

evolving marketplace. We cannot yield to the yearning for market conditions that I am afraid are gone and perhaps gone forever.

We believe there's a future for the steel industry in this country. There must be. And we at United States Steel intend to seize every opportunity to be on the leading edge of that future as we have been in the past.

In conclusion, Mr. Chairman, I think the President's trade program is working, and if it were not in place, it was not put in place until 1984, many steel companies currently described as under a financial cloud, would have been under a statute instead called chapter 11.

We should all work with the President to strengthen the program where possible. It's our best vehicle. It's the only vehicle we have in place for improved trade results in 1986 and in the several years remaining under that program.

Gentlemen, that's the end of my statement.

[The prepared statement of Mr. Roderick follows:]

Written Statement Submitted for the Record
by David M. Roderick, Chairman of the Board,
United States Steel Corporation, to the
Subcommittee on Commerce, Consumer, and
Monetary Affairs, U. S. House of
Representatives, April 4, 1986

I think it is appropriate to have this hearing -- some 18 months after the President's steel program was announced -- to review how it is working. However, before I address that, I think it would be worthwhile to review briefly what the industry was facing in September 1984.

At the beginning of this decade -- 1980 -- steel imports accounted for 16.3 percent of the domestic market. During 1981 imports increased dramatically and the year ended with imports at 18.9 percent of the market, with the second highest tonnage ever recorded. To address this problem, massive numbers of antidumping and countervailing duty cases were filed by steel companies throughout 1982. As a result of cases filed by United States Steel in early 1982, a settlement was reached between our government and the European Community to limit the import of steel products into this market.

Despite this development and the economic recession in this country, and indeed the world, steel imports accounted for 20.5 percent of the market in 1983. And for the period of January-August 1984, imports had grown to 25.8 percent of the market. Clearly something more had to be done.

In an unprecedented joint effort, the industry and the union began in late 1983 a major educational and legislative campaign in support of a 15 percent quota bill. And I can say on behalf of United States Steel this was an extraordinary effort in our plant communities across the country, on state and local governmental levels, and in Washington, D.C. And it had results.

The House quota bill had 222 co-sponsors, a majority of the House. It had the strong support of the House Steel Caucus whose tireless efforts were key to getting this majority. And it had the support of the top House Democratic leadership. But in the end, despite all this, we couldn't even get the bill voted on by the Trade Subcommittee or the full Ways and Means Committee. Consequently, it didn't even get to the House floor for a vote.

And in the Senate, there were 29 co-sponsors on the quota bill. We couldn't get a majority there, despite the strong efforts of the Senate Steel Caucus. And the Finance Committee wouldn't even give consideration to the bill. This, and the lack of support from the Republican leadership, precluded a floor vote.

So as we entered September 1984, the industry was faced with bi-partisan legislative failure to address the steel trade problem.

In the meantime, what was happening to the industry itself? In 1980 the ^w steel industry, as reported by the American Iron and Steel Institute, made \$681 million, a meager 1.8 percent on sales; and in 1981,

* These AISI figures represent results from the steel segments of reporting companies.

it made \$1.7 billion or 3.8 percent on sales. But as a result of the continuing flood of imports and the economic recession, the domestic steel industry in 1982 went into a depression, the likes of which had not been seen since the 1930's. The numbers are staggering. The industry lost \$3.4 billion in 1982 and \$2.2 billion in 1983. While the first six months of 1984 gave us some hope that the year would be positive, by September 1984 the signs were clear that the second half of the year would be down -- which unfortunately turned out to be the case -- and the industry lost \$186 million in 1984, a strong economic recovery year. The losses in the years 1982-84 totaled \$5.8 billion compared to the \$2.3 billion earned in 1980 and 1981.

There was the human side of this turmoil as well. Total steel industry employment -- both wage and salaried -- averaged 399 thousand at the end of 1980. At September 1984 that average stood at 244 thousand, a decline of 39 percent. Wage labor costs were reduced temporarily through a contract reformation negotiated in 1983. In addition, salaried workers in most companies took reductions in not only salaries but also a wide range of benefits.

The industry had also shed capability. Between 1980 and 1984, raw steel capability dropped by 12 percent (from 154 million net tons to 135 million net tons).

So this was the situation in which the industry found itself at September 1984. Not a very pretty picture and the forecast was not any better. Our commercial people were estimating that imports would continue to climb (which they did in 1984 to 26.4 percent of the market) and if unrestrained could reach 35-40 percent of the market in a few years. If this occurred, there could only be dire consequences for the domestic steel industry. So when the President's program was presented to us -- and with the inability of Congress to enact quota legislation facing us -- we took it. To put it bluntly, gentlemen, it was the only game in town.

The President's program is dedicated to reducing the level of steel imports into the United States. Has it been successful in doing this? The answer is yes. As you can see from this chart which tracks the amount of imports on a quarterly basis since 1980, the trend is clearly downward. All of us, perhaps, pay too much attention to an individual monthly number -- but it is the overall trend that is significant -- and it is downward.

The program has limits of 18.5 percent of the market for finished steel product imports and 1.7 million tons of semifinished steel, for an overall market penetration of about 20.5 percent. Again, it is the trend which is important; and, as you can see from this chart which tracks the market penetration of imports on a quarterly basis since 1980, the market penetration trend is downward.

Critics say the program has failed because these limits were exceeded in 1985. But that judgment is too early. First of all, agreements with individual countries had to be negotiated. And that took time -- longer than we liked or anticipated; for example, Brazil was effective in February 1985; Japan, May 1985; Poland and East Germany, July 1985; and Austria, December 1985. But nevertheless the office of the United States Trade Representative has worked tirelessly to secure these agreements. There are 17 agreements in place plus an extension of the 1982 arrangement with the European countries. In addition, through other agreements with the Europeans which were effective in August 1985 for the so-called consultation products and in January 1986 for semi-finished, all EC steel imports are now under control.

So, gentlemen, I believe the President's program is working. Yes, we would have liked it to have worked better and faster, but given the complexities of implementation -- it has gotten imports on the right trend -- downward.

I realize there has been some disappointment expressed with respect to February imports of 2,043,000 tons. But again -- despite such a monthly fluctuation the trend continues in the right direction -- downward. For the year 1984, imports totaled 26.4 percent of the market; for the year 1985, 25.3 percent of the market; and for the first two months of 1986 -- an estimated 24 percent of the market. And it is the view of some in the industry that imports for the year will fall to 22.5 percent of the market. I believe that is a plausible figure.

Do I think the President's program will work better in the future? Yes, I do. Why? ... Because it is now basically in place ... because the Administration is still working diligently to bring other countries such as Sweden under it ... and because the President himself is committed to it.

As he said in a letter to the membership of the American Iron and Steel Institute on May 22, 1985, "... I am committed to the full implementation of my program to provide our industry the opportunity to compete on a level playing field." And, gentlemen, I have no reason to disbelieve the President of the United States.

While it is obvious that the President's program is working, there are steps that can be taken to make it work even more effectively, such as:

- 1) Coverage has to be extended to countries such as Sweden not yet under the program and, if agreements can't be reached, then limitations should be unilaterally imposed.
- 2) The diversion problem is intolerable and could ruin the program. For example, Country A is an agreement country. It ships a product to Country B, a non-agreement country, where further processing occurs. That product is then shipped to the United States, but is counted as an import from Country B rather than Country A.

This abuse must be satisfactorily addressed in any omnibus trade legislation approved by Congress this year.

- 3) Certain segments of the industry, such as specialty steel, and certain limited product areas have to be given particular attention to make sure that the program is being implemented and enforced consistent with what's going on in the marketplace.

The President's program also addresses other areas of concern to the steel industry. However, there has been little attention paid to them by either the Administration or Congress and what attention has been paid has been negative. One such area is tax policy.

The tax bill passed by the House last year takes away provisions which enhance our ability to invest and modernize, especially in our weakened financial state. And the tax proposal currently before the Senate Finance Committee is no better than the bill passed by the House last year -- a bill which we opposed. In some aspects, the Senate proposal is even worse. While it does contain a provision for partial refund of unused investment tax credits, it would eliminate the industry's ability to deduct Superfund and Black Lung taxes, and it contains an even more onerous minimum tax provision than the House-passed bill.

When Congress passed the Steel Import Stabilization Act to give the Executive Branch authority to enforce the President's program, it put in the law a provision to which the industry had previously agreed, i.e., commit to invest substantially all its net cash flow into modernization, and not less than one percent of net cash flow to the retraining of workers.

At United States Steel, we have more than exceeded that commitment. For the year 1985, we had a negative "net cash flow" as defined by the Act of over \$60 million. Thus, we had no requirements under these provisions of the Act. Nevertheless, as defined by the Act, our commitments in 1985 were over \$200 million, and our retraining commitment was about \$3 million.

In your letter of invitation to testify, Mr. Chairman, you asked me to cover recommendations as to the future of the domestic steel industry. Here I would like to emphasize that I am speaking only on behalf of United States Steel.

We believe that government policy on any level should not hinder competitiveness in the marketplace. But we also believe that

ultimately we have to be the masters of our own fate. And over the past six years we at United States Steel have taken steps to ensure that.

- 1) We have shut plants and facilities, reducing our steelmaking capability by 7.7 million tons or 23 percent between 1980-85.
- 2) We have reduced total corporate employment (excluding Marathon Oil) by 66 percent between 1980-85.
- 3) We have substantially reduced our costs on all fronts and improved productivity.
- 4) We have taken actions -- by acquiring Marathon Oil in 1982 and merging with Texas Oil & Gas earlier this year -- to broaden our asset base and protect the Corporation against the extremes of steel's business cycle.

It is this last point which I would like to address for a moment. Primarily as a result of the income from our Marathon Oil subsidiary, United States Steel Corporation as a whole was profitable in 1984 and 1985. Thus, people assume that we're a healthy corporation and all our problems are behind us. And while our steel sector showed an operating profit for both years, this is an illusion of health because the method by which we account for financial interest expense and other charges is on a consolidated corporate basis.

If our steel and domestic iron ore operations were set up as a stand-alone company, as this chart shows it would have had a pretax loss in every year since 1980 except 1981. As the next chart indicates, the total for that period would be a pretax loss of nearly \$2.4 billion. This has been certified by Price Waterhouse. Hardly the numbers of a healthy steel company!

Faced with those bleak numbers, what do we see for the future?
How does our steel business survive?

- 1) We must continue to improve our existing facilities to make them as efficient as possible.
- 2) We must continue to modernize when and where feasible despite depressed financial conditions. Since 1980, we have invested \$2.6 billion in our current steel and related resources business segment plus we have arranged for an additional \$431 million in expenditures which are "off balance sheet" due to their unique and innovative financing methods. We will have the nation's largest continuous casting facility come on stream at our Gary (Ind.) Works later this month and are committed to a second caster at our Fairfield (Ala.) Works.

I should caution, however, that these types of investment become more and more difficult to do if we can't make an adequate return on them.

- 3) We must respond to our customers and the demands of the marketplace with innovative techniques and not rely on traditional answers. At United States Steel, we have embarked on joint ventures to ensure our viability in the West Coast market and to respond to the special needs of key customer groups.

And finally,

- 4) All of our costs -- including labor which is 30-40 percent of our total costs depending on both plant location and product -- must always respond to an evolving marketplace. They will not yield to yearning for market conditions gone forever.

We believe there is a future for the steel industry in this country. And we at United States Steel intend to seize every opportunity to be on the leading edge of the future as we have always been in the past.

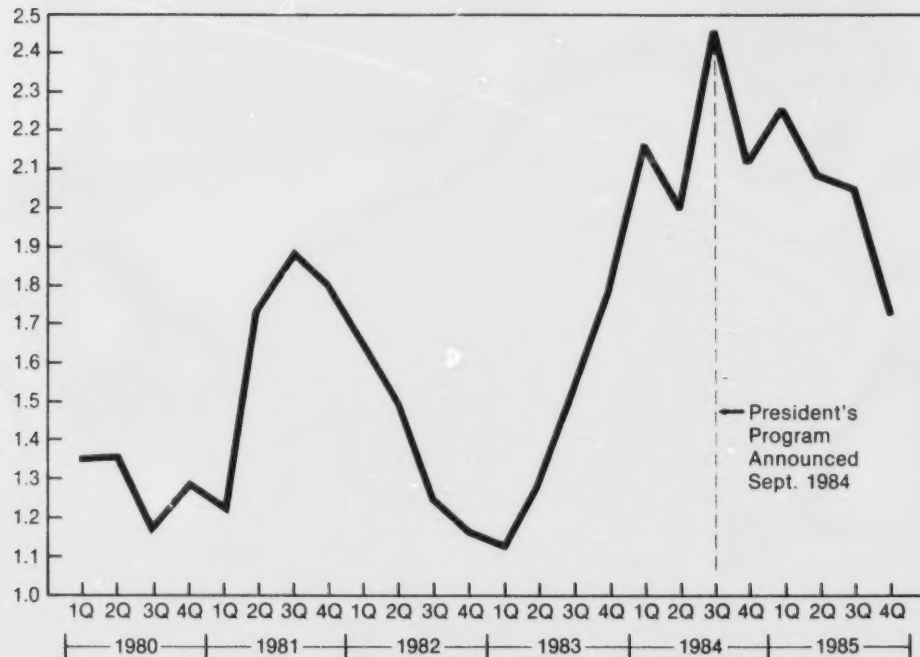
Thank you.

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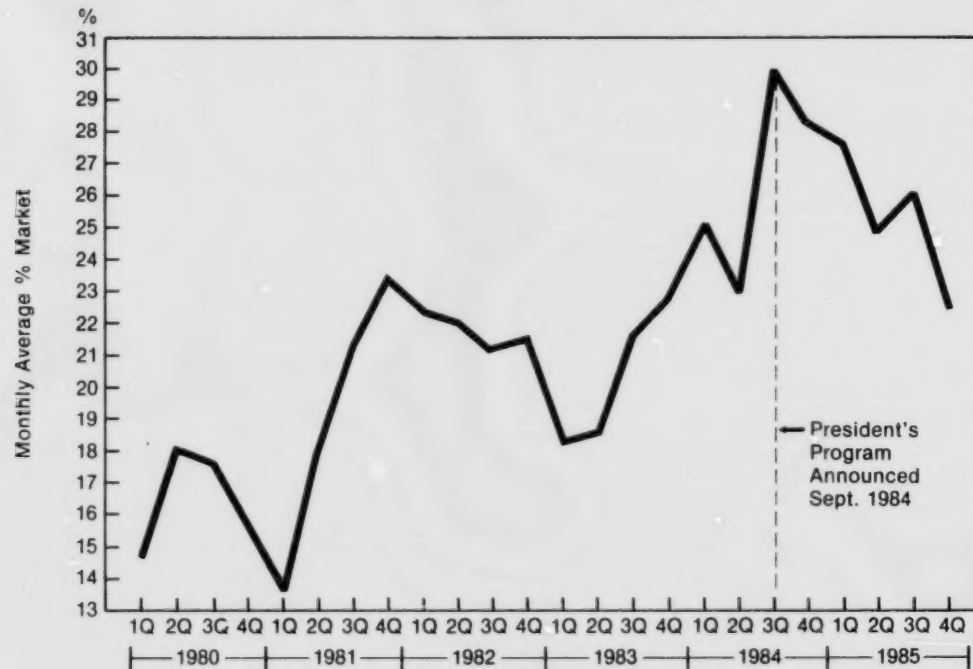
IMPORTS OF STEEL MILL PRODUCTS

Quarterly Averages 1Q 80 - 4Q 85



IMPORTS OF STEEL MILL PRODUCTS

Quarterly Averages 1Q 80 - 4Q 85

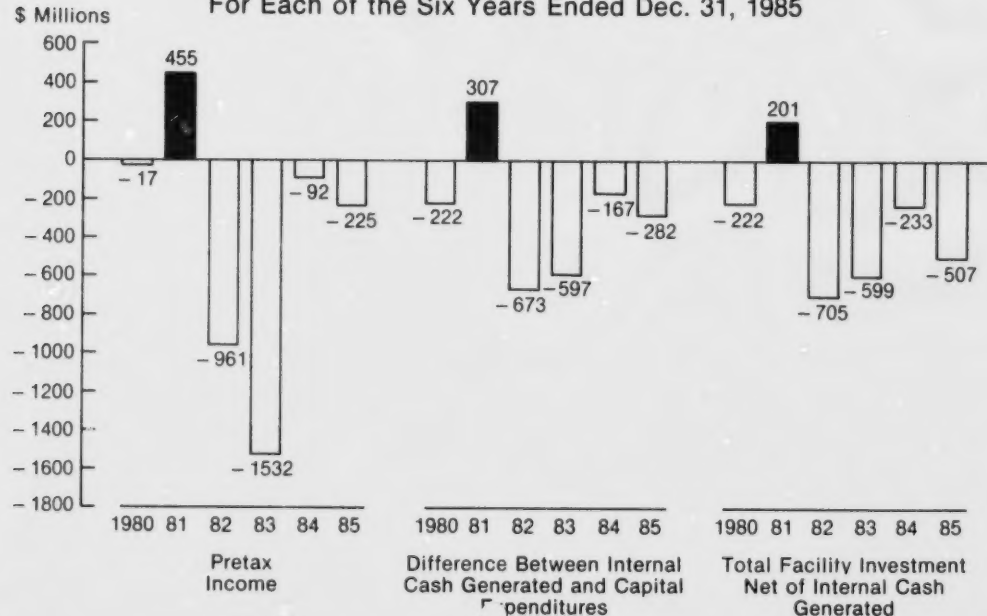


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United States Steel Corporation
Steel and Domestic Iron Ore Division

SUMMARY OF PRETAX INCOME, DIFFERENTIAL BETWEEN
INTERNAL CASH GENERATED AND CAPITAL EXPENDITURES
AND COST OF OTHER STEEL-RELATED FACILITIES

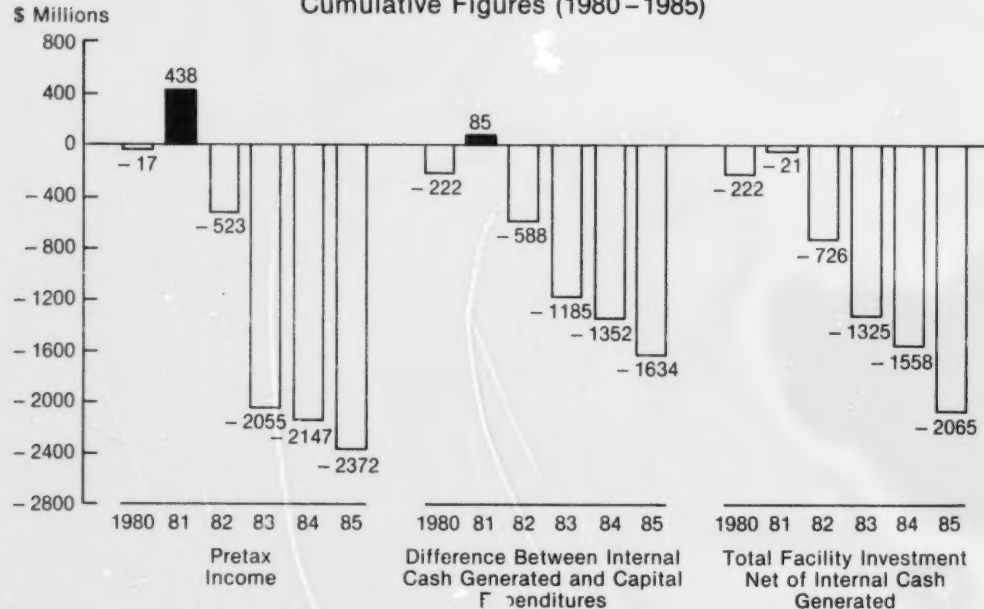
For Each of the Six Years Ended Dec. 31, 1985



United States Steel Corporation
Steel and Domestic Iron Ore Division

SUMMARY OF PRETAX INCOME, DIFFERENCE BETWEEN
INTERNAL CASH GENERATED AND CAPITAL EXPENDITURES
AND COST OF OTHER STEEL-RELATED FACILITIES

Cumulative Figures (1980-1985)



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Mr. BARNARD. Thank you. Thank you very much, Mr. Roderick, for a very, very fine statement. Certainly it is a good way to get this hearing off in the spirit of optimism and hope, and for the future.

The rules of our committee are that each member has 5 minutes for questioning, and sometimes we get away from that a little bit, but in order that we might adhere to the schedule this morning, I'm going to have to impose the 5-minute rule and I'll start with myself, which is an awful temptation sometimes to not abide by.

I was very interested in your testimony as it discussed the lack of success in getting a bill through the House and through the Senate. Of course, I was very much familiar with how difficult it was to get the textile bill through the House and the Senate.

I've got two questions in regard to that. Do you think that we are still laboring under the cloud of the Smoot-Hawley Act years and years—eons ago—which affects us today in trying to identify what fair trade is as opposed to free trade?

Everybody you talk to in Congress, including Sam Gibbons, said I am for free trade. Great. The President is for free trade. But free trade today doesn't mean what it did 30-some-odd years ago. So don't you think maybe—it's like in the Banking Committee—we are still laboring under the Depression. Every time we want to see some changes in the marketplace in the banking area everybody says look at the Depression. Look what happened to banks through the Depression era. So therefore we're still saddled with the Glass-Steagall Act, the McFadden-Douglas Act.

So I just wonder when are we going to be able to get unshackled from this—the reaction of the Smoot-Hawley Act?

Mr. RODERICK. Mr. Chairman, I could not agree with you more. I think those people who do not have any explanation for some sort of an orderly trading process as, let's say, practiced by our trading partners where they do make agreements, quantitative agreements, create trade barriers, reduce access to market, we don't seem to have that mentality.

People who cannot give you good reason as to why we should not do what our trading partners do hark back to the Smoot-Hawley tariff, and I find it rather amusing because what everybody seems to forget is that tariff came along 3 years after the Depression started. And so they blame the Depression, and it was enacted 3 years after the Depression started.

It's what I call the strawman approach, and if you don't have good logic and good arguments on your side, you create a strawman and then knock it over. I think that's exactly what goes on. I think the approach as applied today is just absolutely meaningless. Government ownership is a totally different social structure. Many, many things built into the system are facing that in all countries, and I don't think that references anything but the appeal to emotion rather than to reason.

Mr. BARNARD. I'm not asking this in a partisan sense. I try to remain as nonpartisan as anybody. I'm an original boll weevil. Do you know what a boll weevil is in the Congress?

Mr. RODERICK. Yes; I recognize the term.

Mr. BARNARD. Well, do you think we would have gotten this far with the President's program if we hadn't passed the textile bill to

the degree that we did, and had it in place, and also the tremendous support that was being given for the steel positions?

Mr. RODERICK. No, sir; I think the legislative effort and the very fact that we have a majority of sponsors in the House, I think obviously the President was aware of it, I think it was a matter of concern to the industry, I think it was a matter—is still a matter of concern that if nothing were done that a legislative initiative might be more positive.

So was that effort helpful? I think we would all have to say "yes." I think even the Bethlehem and the Steelworkers' 201, even though the President ruled against it, I think psychologically was a help in calling attention to the unfair trade that was being practiced. The ITC clearly recognized that unfair trade. I think all of those efforts helped to prepare the President for the President's voluntary program, so I think they were helpful.

Mr. BARNARD. Mr. Roderick, in the improvement of the import situation, even though it's been modest, I believe, has this reflected in any improvement in sales, profits, and employment?

Mr. RODERICK. Well, when we say improvement, I think you can say it was an improvement because it did not get worse. That's the biggest gain we made from it, in my opinion, because—

Mr. BARNARD. Your earnings didn't get any better, did they?

Mr. RODERICK. If you look at those charts, you saw where those imports were going. They were going up quarter by quarter. And I'm sure if we didn't have it we would be up to 40-percent import level. There was nothing to stop it.

Mr. BARNARD. Have you got any projections as to how—that's not the chart I want. I want the one just before that, in the red.

Mr. RODERICK. Isn't that one red enough for you?

Mr. BARNARD. Yes; that's too red. I can't solve all of that red.

But I was noticing—I took note that in the last quarter of 1985—those are annuals, aren't they?

Mr. RODERICK. They're annual numbers.

Mr. BARNARD. But in 1985 your pretaxed income actually declined nearly to the 1983 level.

Mr. RODERICK. Right.

Mr. BARNARD. Is it too much to expect that after the 1984 agreements, and the trend, we would have had a better earnings picture there?

Mr. RODERICK. I think there are a number of reasons but the major reason, Mr. Chairman, was that the—if the price in the marketplace had continued to decline. I think these are memory numbers, but I think they're reasonably right, but in mid-1984, about the time the President's program went in—I can only speak for United States Steel—I think our average price per ton was \$500.05 a ton.

By the fourth quarter of 1985 those prices were \$445 a ton. Now, you know, you take \$50 or \$60, and multiply it by 12 million tons of it we shipped into the marketplace, quite obviously we had a materially different result if we did not have tremendous price erosion from the marketplace.

And so I think that was the major factor. There is no question that the slowdown of imports was helpful. The decline of imports was helpful. But there was a market disorder out there, dog eat

dog in every respect, the competitive process, an oversupply domestically, one domestic steel company chewing at another, and the price just kept going down even though imports were going down, the price kept going down right with them.

So if you said what was the greatest problem that the industry faced in 1985 that led to worse results in 1985, clearly I would say the unprecedented price erosion of a runaway nature.

Mr. BARNARD. Was that because of production?

Mr. RODERICK. No; I think production in 1985 versus 1984 was up slightly. We were producing more in 1985 than we were in 1984, so we had a little stronger market. Some of the pressure of imports was off. The import factors were not as strong as they may have been. And what I would say is that a tremendous amount of import tonnage is still there, of course, a tremendous number of tons available in the marketplace chasing a reduced opportunity.

So the typical case of an overcapacity, oversupplied market, I think caused a very chaotic price environment.

Mr. BARNARD. Thank you. My 8 minutes is up. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman.

Mr. BARNARD. Joe, before you speak, I want to welcome at this time both of my friends from Pennsylvania. Doug Walgren, who came into Congress at the same time I did back in 1976, and a very distinguished and longtime Member of Congress, represented by his gray hair and all that, Joe Gaydos.

Joe and Doug, we're glad to have you with us this morning, and we will have an opening statement from you in just a few minutes. Mr. Kolter.

Mr. KOLTER. Thank you. Mr. Roderick, thank you very kindly for joining with us this morning. To further the interrogation of our chairman here, would part of the problem have been the fact that some of the foreign nations were subsidizing their product, therefore, you would have to lower your prices?

Mr. RODERICK. Yes; I think that subsidized and dumped product into the market by either government-owned facilities from abroad, and/or even privately owned but in effect subsidized at some point, clearly permit foreign interests to offer below-cost product into this market, and it clearly has a dampening effect on price opportunity for companies that must operate under a free enterprise environment.

Mr. KOLTER. And this is called dumping, is that correct?

Mr. RODERICK. That is right, sir.

Mr. KOLTER. In your opinion, how will the domestic steel industry look after the President's steel program ends in 1989?

Mr. RODERICK. Well, it's going to have to be a lot leaner, and it's going to have to be a lot more efficient, and if we are not, if we don't have vigorous trade enforcement, it's going to be a very, very tough market come 1989. It's going to be no easier in 1989 against foreign competitors than it is today unless we have vigorous and expeditious enforcement of our dumping laws, and our countervailing duty laws.

Mr. KOLTER. Well, you're saying perhaps we may have fewer players also?

Mr. RODERICK. I think in 1989, I think, there clearly could be fewer players, and I think you will see some further capacity reduction in the domestic industry between now and that time.

Mr. KOLTER. Has the decline in interest rates provided an opportunity for the corporation to refinance its debt obligations?

Mr. RODERICK. It certainly is an opportunity. I can tell you we at United States Steel intend to avail ourselves to it. As a matter of fact, I was working at it this morning before we started this hearing, and certainly, yes, I think there's an opportunity to take the outstanding debt and try to bring the interest burden down.

However, maybe the case of United States Steel is somewhat different from one or two of our competitors who maybe, even though there are lower interest rates available in the market, if their financial situation is in such tremendous distress, they may not be able to avail themselves to those lower interest costs because they just may not be able to borrow at all.

So I think that is one of the dilemmas that clearly certain members of the industry are facing, and they are very sensitive to it, and I think it's one of the reasons in the Senate bill, for example, they would like to get refundability under the ITC because it would furnish them much needed cash to help them with a debt, and help them with their investment program.

Mr. KOLTER. Mr. Roderick, do you foresee any further agreements, or joint ventures, similar to the one recently announced with Pohang Iron & Steel?

Mr. RODERICK. It's always hard to say because these opportunities sometimes can't be identified. I can tell you this, Congressman, that we have at the moment—we certainly have no such discussion underway with any foreign producer. And for confidential reasons, I emphasize the word "foreign," but I do not mean we would not have such conversations underway with a domestic company.

Mr. KOLTER. One last question. Since we've had so much unemployment and plant closings, what has United States Steel done to assist its former employees who have lost their jobs due to imports and plant closings?

Mr. RODERICK. Well, what we have done, a great number of things. No. 1, about one-third to one-half of those affected by plant closings are eligible for immediate pension. And, of course, they not only get their regular pension, but they get a \$400 supplement in addition to that, \$400 per month until they are qualified for Social Security. So that's a big umbrella that we clearly have that cushions a big part of that flow.

In addition, any worker that's laid off that has over 20 year's service gets his unemployment, but he also gets his supplemental unemployment benefits paid for by the company for 2 years. And, of course, that also keeps them into about 75 percent of the income that he had when he was working.

In addition to that we have, with the cooperation of the Steelworkers, and the Job Training Partnership Act, opened up a series of centers that try to get people to learn how to apply for different jobs, how to apply for available training, and to work with them in getting that training, so they could retrain for other opportunities that may be available in the area. We think those programs are very helpful, and we hope they continue.

In addition, one other thing that I think is not understood generally, when we close a plant and put these people on retirement prior to their being able to qualify for Social Security, we also are responsible—they get the same health coverage for all practical purposes as an active employee.

So we are paying health bills, we are paying SUB for an extended period of time, and of course, we are paying a pension.

I'd like to point out that we are paying. We have not asked for public pension guarantee funds to pay the force.

Mr. KOLTER. Thank you. Have you had any feedback from the effect of the retraining program? How effective has the retraining program been to find new jobs, or to relocate for new jobs?

Mr. RODERICK. Well, it's a very tough statistic to pin down, Congressman. We can give you the results of the feedback that we got. It's very favorable. We got a lot of people that did get placed in other jobs, and were assisted in getting into other jobs, and we've gotten a lot of letters to that extent in thanking us. And I'm sure the union has also gotten comparable letters thanking both of us for helping them in this process.

We can furnish you the feedback that we got. As I recall, about half of the people said they were helped in finding a job. We should have no illusions. The bulk of those people were not finding the type jobs they are leaving. They're leaving a job where the total hourly employment cost is \$24. The next step down might be \$10. So their purchasing power, their ability to maintain their way of life, standard of living, clearly diminishes very, very substantially.

One other thing we've done, Congressman, which is very successful, we have invited all our employees, management and labor, our union people, if they have children in school, at local colleges, we in effect said that we wanted to hear from them, that we would offer their children a tuition supplement grant so they would not have to drop out of school. Not have to lose the educational thrust for their children.

That's been very successful. Fully subscribed to last year to the point where we're going to continue it for another year. It's bad enough that we disadvantaged the parent. We don't like the idea of pushing it down to another generation.

So we're trying to help. Can a lot more be done? Obviously the answer is yes. And we are sensitive to it, but, again, we have to do what we can afford to do.

Mr. KOLTER. Thank you very kindly.

Mr. BARNARD. Mr. Erdreich.

Mr. ERDREICH. Thank you, Mr. Chairman. Looking at the percentages, and where we are with import penetration, your testimony says that the VRA program's success is that it has kept imports from reaching higher levels. I guess that is one way to look at it. Recently, we had Secretary of Commerce Baldrige before us in the Steel Caucus, of which I'm a member, and some of the members of this committee also are members of that caucus in Congress, and we were asking him about the import levels, where are they, where are they going, and he said that he thought that indeed the levels are declining, and that's clear. But he also went on to say that the 1986 level should approach the target of the President of 20.5 per-

cent. Now, approaches is kind of a weasle word, and I won't try to pin the Secretary of Commerce down today since he's not here.

But what's your prognosis? Will we get to the 20.5 percent in 1986, 1987, or will we get it before 1989?

Mr. RODERICK. I don't believe we can get to the target percentage. I believe we're in that 22- to 23-percent range. Namely, we won't get to it, in my opinion, because we have certain countries not in the program. Clearly, Canada is not covered by the program. Clearly, Sweden is not covered by the program. Taiwan is not covered by the program. Argentina is not covered by the program.

So until you, in effect, totally circle the wagon, I think that the 20.5, 20.3, cannot be achieved, but I do think that we can get it down to that 22- or 23-percent level, and that will be a lot of progress, but without bringing the others in some way, by the 301's, the 201's, or some other legislative approach, I see no way of getting it down to 20.3 percent.

Mr. ERDREICH. I would agree with that analysis.

I'm curious. It's clear to me that in 1984 we had the benefit of the leverage of ITC opinion although the President didn't follow it, which distressed me. We still had that as leverage and I believe that indeed helped produce the VRA and the Steel Stabilization Act that we passed.

In order to get coverage, and I would also agree if we got about 81-percent coverage at this point—I've seen that in testimony of countries covered—in order to get those others in, whether it's Sweden, and Canada, and who all else, would, or is, your company contemplating filing petitions with the ITC on unfair practices against those countries? Or do you know of any other companies that may be contemplating that?

Mr. RODERICK. We already have cases against Argentina, is that right, John?

Mr. MANGAN. Yes; and Sweden we filed against.

Mr. RODERICK. And we filed against Sweden. We, through John Mangan's group, look for any uncovered country where we can find an unfair trade practice under our statutes. We will aggressively pursue whatever relief we can get in that area.

In addition to that, we're bringing those things to the attention of the STR, Ambassador Yeutter, and we would like to see them self-initiate a 301. As a matter of fact, Ambassador Yeutter very recently said that in the case of Sweden because of their quantitative agreement between themselves and the Europeans, which is illegal under GATT without offering the same thing to your other trading partners, is looking at filing a case using that with the idea that if Sweden doesn't come to some agreement, if the President is willing, and it is after all the will of the President, they would impose a limitation on Sweden under a 301 procedure. Now, whether they'll do it, I don't know. At least they have told the Swedish Ambassador that they're going to. We'll just have to see.

Mr. ERDREICH. I've seen—in fact, I have in my hand an analysis that the United Steelworkers have done, to look at among other things, the VRA program. And I really was shocked by one conclusion in it, and I wonder if your folks have had a chance to look at this.

According to the analysis of the consultant that did this report, the President's VRA agreements, according to that conclusion, actually permit import penetration to remain at 24.5 percent of apparent consumption. In other words, the conclusion is that under the agreements as they now stand, 24.5 percent would be the best that could be hoped for.

Have you had a chance, or anyone in your organization, to analyze the agreements themselves, and to determine if the agreements themselves meet the 20.2- or 20.3- or 20.4-percent level?

Mr. RODERICK. Well, I think we have made it clear in our opinion we don't see the possibility of getting down to 20.3. I mean, we just really don't see that at this point.

I have not seen the Steelworkers' analysis. I'd be happy to look at it, talk to Mr. Williams, or his people about it. Our best guess for 1986, for a number of reasons, we think 22 or 23 percent should be right in 1986.

No. 1, they overshipped in 1985. So there's a payback. They have to pay that back. So that then automatically brings down some import levels.

No. 2, some of the import agreements themselves were structured where, for example, Mexico has a declining quota each year. A number of other countries have that. That also should bring down the level.

And, No. 3, since the President's program has come in, after 4 years of doing nothing, our foreign exchange, to the credit of Jim Baker—he met with a so-called group of five—and exchange rates are now working in our favor to where some of the more marginal tonnage which is coming in should now be less attractive to those countries, and we think that will have a downward pressure.

So we think the 22 to 23 percent is realistic, but I could not quarrel with the Steelworkers' conclusion without a thorough analysis of the work.

Mr. ERDREICH. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Walgren, at this time would you like to begin the questioning, or would you like to enter your opening statement?

Mr. WALGREN. I would just like to say, and then perhaps turn to Joe, how much we appreciate your being here, Mr. Chairman, and the Government Operations Committee has such a critical role in playing this. We all realize it's a large problem, but we wanted to be here to encourage you to know how much we care about this issue.

We get discouraged sometimes when the administration doesn't support the programs which we think can be helpful to the steel industry. We're frustrated that the numbers have not been met as the goals were set. In my own Science and Technology Committee we have a Steel Research and Development Program which is a small enough program involving the national laboratories that was signed into law, appropriated by both the House and the Senate, signed by the President, and now this year the President turns around and wants to defer those expenditures until next year.

So this is a very broad problem, and it has to be addressed at all points of contact, and your point of contact is probably literally the most important.

I want to say that I think the positive thing of the President's program is that this is the first time we are realizing that we need some kind of a uniform stream between our economy and those economies in the rest of the world.

Realizing that we are competing against nations that are producing, and organizing their social structure in a way that goes into delivering steel on our shores at prices which we cannot compete, when we rely on private sector corporations, and private sector labor, to produce our goods.

And so the value here is for this first time we're getting into a really across-the-board system which is the only system which we can effectively equalize and limit imports coming from that kind of different production.

But I wanted to ask Mr. Roderick if he could address the frustration of why aren't these other countries covered? We say we're only coming down to 23 percent. Our goal was clearly 3 percent less. That represents about 52,000 or so American steel jobs that are not being realized because we are at these elevated levels. And we hope to get to those levels, but those levels that are the goals of this program are higher than the traditional levels of import.

We in Pittsburgh were violated by 16- and 17-percent levels of import penetration traditionally in the 1970's, and 1960's, and the like, and here we are begging for 20-percent import levels and not getting it.

Now, why would these countries not be covered, and how is it that imports come in from nonproducers when we know that that's not the source of the steel?

Mr. RODERICK. Well, Congressman, first you say why aren't they covered. Well, first, the President's program is a voluntary program. So that's the first reason.

The second reason is that through trade suits, talking about dumping suits, countervailing duty suits, we had very, very good cases against many of these countries which did volunteer to come in because they were trying to shelter themselves against those cases.

The countries that are outside the program, Canada, we have not had successful dumping suits, or countervailing duty suits, and the Canadian Government thus far has refused to voluntarily come in and become part of the program.

Sweden is exactly the same way. We have done a whole series of suits against them, and we continue to have them. We hope to win them. But the Swedish Government as a matter of principle has not been willing to enter into a voluntary arrangement.

Taiwan is exactly the same way. We have not had successful dumping suits yet, or countervailing duty suits. So most of the countries that have not come in have not come in because under our existing trade laws we have not been successful in putting enough pressure on them by putting the fear of God into them to where they will voluntarily come into the President's program.

Mr. WALGREN. So, at this point you would say that the President lacks the threat, the power, to bring them in, in other words, and the danger would be that you have some people in, but others out, and if the others stay out, soon our resolve to have a 20-percent cap, or any cap at all, would be clearly questioned by those that

have come forward and joined in. And would you agree that perhaps now is the critical time to give the President the kind of power to bring those nonparticipating countries in, or else we may lose the whole fabric of this across-the-board then?

Mr. RODERICK. Yes, I think under 201, or 301, the President probably has the power to take some of those actions. So when you say does he lack the power, I don't think so.

I think he lacks the pressure to be able to get them to voluntarily do it, and the President, as part of his trade philosophy, has been unwilling to impose quantitative limitations on those countries. Plus a matter of philosophy by this administration, Congressman Walgren, that we—unless we can come up with 301, 201, dumping suits, countervailing duty suits, which in effect will help pressure—put some pressure on those countries, it's going to be very difficult to get them to volunteer to become part of the program. The President up to this point has not shown the willingness to, let's say, use all this power to force them into the program other than through present trade legislative authority.

Mr. WALGREN. Thank you, Mr. Chairman.

Mr. BARNARD. Joe, I'm going to recognize Mr. Ridge, and then will recognize you.

Mr. RIDGE. Thank you, Mr. Chairman. Gentlemen, Mr. Roderick, a couple of questions, if I could, please.

You give us some positive or optimistic news as you point to the downward trend and feel that it can continue to go in that direction. And I guess initially I would just like an assessment or an explanation as to why you're so positive about the downward trend, pretty much tagging along or tagging onto a question that Congressman Walgren just asked. The voluntary restraint program is a voluntary program. There is a historic reluctance by the administration to use 201 and 301 petitions, be it for steel, machine tools, or anything else. We see more and more ways being developed by foreign countries to divert, transship, and the like. I think Panama now will be the source of some Brazilian steel when they're going to make OCTG.

So it's voluntary. We don't use the enforcement machinery that's available. We haven't included everybody in it that should be in it. What out there will compel anybody else to do anything differently over the next year or two?

Mr. RODERICK. Well, I say that I think it will come down because again they overshipped last year. You do have enabling legislation that was passed by the House and the Senate, signed by the President, that anybody who signed that agreement it is enforceable. And if the intention of the administration to enforce those agreements are in effect.

Now, with the parties that aren't covered, very clearly we have the wagons circled, but one is out of place. And some tonnage will come in there that is going to stop you from getting down to the 20.3 percent. I think that's the reason I'm saying I think 22 or 23 is where you're going to be.

The diversion issue, Congressman Ridge, as you point out, is absolutely right. But, again, I would hope that the trade bill which is being discussed in the Senate and the House, that we can get very strong diversion language in that bill that when Brazil tries to ship

products to Panama to fabricate into pipe to circumvent the agreement, that this absolutely will not work. And that's going to take some legislative initiative within the omnibus trade bill to bring that about, and I commend to all of you that you get Mr. Gibbons, and the chairman of the House Ways and Means Committee, to be very extensive to the need for that type of an addition to the omnibus trade bill.

And we're talking about steel here today. As Congressman Barnard has indicated, you have exactly the same thing in textiles. You have that type diversion going on in textiles.

So we need in the omnibus trade bill very strong antidiversion provisions that would absolutely stop those type activities dead in their tracks. I commend you to do everything you can to bring that about.

Mr. RIDGE. Thank you.

The program has been in existence now for about 15 months and we've seen a tremendous ability to reduce imports quickly. Projections that I've read suggest that the domestic demand for steel will basically maintain at the current level well into the next decade. This has resulted in some widespread price cutting, both internationally and domestically, which in turn results in losses to the steel industry as reflected by reorganization efforts of different companies with possible adverse consequences not only on those who are trying to reorganize, but other entities out there just barely hanging on.

And I know as a response to that scenario that the Senate has looked at the investment tax credit again, and is—one of the proposals is that the steel industry would be able to sell unused tax credits. I guess 70 cents on the dollar with the hope and the promise that they would use that money to modernize, but another element of that component is that even those companies that have modernized, that have unused tax credits, would be forced to sell them at 70 cents on the dollar. And I'm wondering if you could comment on the requirement to sell these tax credits? I am thinking in terms of a couple smaller companies that I know, which have modernized, they've reduced their costs with their unions and suppliers, they're in pretty good shape, and they don't want to be forced as a condition to help the rest of the steel industry to give up those tax credits they project they're going to use down the road somewhere.

Mr. RODERICK. Well, again, the 70 percent, of course, is just discounting the future potential use of those tax credits. There are obviously going to be some inequities, those who can use the tax credits of 1987 or 1988, a 30-percent discount on them is a little unfair to them. Conversely, some of the larger companies, who are in need of cash, and in need of cash desperately, and may not be able to use their unused ITC's for 5 or 10 years, it is a financial vehicle that they find very, very compelling.

I think there's been a coalition within the steel sector. I think Bethlehem, LTV, Armco, have been very aggressively, let's say, supporting the refundability at the 70-percent level.

We would benefit by it in United States Steel, and we do not oppose it. We have not been a great supporter of it. We do not oppose it, and we would benefit by it. And if we got it, it would

accelerate the possibility to accelerate our modernization of some of our steel facilities.

So we'll be happy to receive it, but I think we all have to recognize that as with any tax provision, there are those who benefit a lot, and I think these are some of the larger steel producers, and there are those who do not benefit as much. These are the highly profitable companies whether they be steel or otherwise because they are discounting something 30 percent that they can use next year or the year after that's a big discount, so they're disadvantaged, and there's a lot of other people who are in the middle. Tax legislation never falls evenly unfortunately.

Mr. RIDGE. Mr. Chairman, do I have time for one more?

Mr. BARNARD. Sure. A short one. If you can get him to be short.

Mr. RIDGE. Mr. Roderick, I appreciate your comment about involving certain segments of the industry, such as specialty steel in certain limited products areas to be given the kind of particular attention to which I referred in my opening remarks.

I'm just curious as to your assessment of the general willingness of the larger integrated firms to accept perhaps as a result of paying particular attention to specialty steel where certain limited product areas, or, that in order to help pipe and tube that has a 50-plus-percent import penetration, that some other components of the steel industry over the next year or two might not get the kind of help that they think they need.

Mr. RODERICK. Well, that's one of the problems, Congressman, that if you have overall limits, and you begin to reshuffle within the limits, obviously if you help one party and you don't change the limit, then some of it has got to come out of somebody else's pie.

I think if you have to look at that—I don't think it's as meaningful, however, in the specialty steel area as it would be for carbon steel products—because specialty steel over the years, as I'm sure you will hear from one of your later witnesses, Dick Simmons, clearly has had a lot of trade legislation and trade treatment outside of a, let's say, umbrella program covering the carbon steel industry.

And I think people are innovative enough if they wish to be. They would be innovative enough to be able to make some exceptions if they had to be made.

Mr. RIDGE. Thank you, Mr. Roderick, Mr. Chairman. Thank you.

Mr. BARNARD. Mr. Gaydos, we'll hear from you at this time. You might make your opening statement and begin your questioning.

Mr. GAYDOS. Thank you, Mr. Chairman. I submit the opening statement.

Mr. BARNARD. Without objection——

Mr. GAYDOS. I'm very happy that Mr. Kolter, and you, Mr. Chairman, brought this hearing here to Pittsburgh, because I think here is the crux of the problem, not excluding any other geographical area of the country.

Second, this hearing is giving us a better insight as to the present status of the steel industry. We have heard at the Steel Caucus, many different versions of what the steel industry's present status is. This is going to help us. As Chairman Roderick has indicated we're going to have to vote and support some type of

trade legislation, whether it's the omnibus bill he referred to, or some other bill.

And in that capacity I think it's important, it's imperative that we have as much information before us as we possibly can.

Let me thank Chairman Roderick and the AISI for their complete cooperation with us on the Steel Caucus. They made their information available to us in timely fashion.

Let me ask just one question, Mr. Chairman.

Mr. Roderick, some 3 or 4 years ago we had a great influx of imports, something like 5 or 6 million tons of steel disappear from our records. I wonder if you recollect that? I'm just wondering since we had such a bad year last year, and the year before, whether or not that lost steel caused it. Maybe some of that 5 or 6 million tons have worked their way back into the market. Would you have a comment on that?

Mr. RODERICK. There is no question that with the 201 breadth hanging over a lot of countries in 1984 that people shipped steel in here in anticipation of being limited in the future.

One of the great difficulties that we have in any economy is trying to measure the amount of inventories that was in place. And I'm sure that there is still major inventory out there than we would like to see. Still a tremendous overhang.

I know that's true in pipe and tube. We still probably have over a year's supply of inventory in warehouses which is an overhang in the sector.

And there's one other insidious thing that I am not prepared to deal with in detail, but the information is coming in. And that is one of the markets that we have lost, Joe, is that the indirect imports of steel, which used to run about 6 million tons a year in foreign cars, and fabricated structurals, and trucks, and machinery. We used to have about 6 million tons a year of steel products come in that way in the form of product.

The latest estimates, I understand, which are being finalized now, that number is now up to 15 million tons, and those are coming in from abroad. So you can see the tremendous loss of market opportunity that the steel industry of yesterday has compared to the market opportunity we have today.

Mr. GAYDOS. Then would it be fair, Mr. Chairman, to conclude as a reasonable person, that given those statistics, and given the fact that a lot of this inventory is unaccounted for, that the President's program, although it might not appear to be working, may be hindered by the hidden lost-steel factor?

Mr. RODERICK. I think it is working better with time and I am saying that I think the results of 1986 will be better than 1985, and as long as the President continues to personally support the program, and get the support of Congress, I think the program will effectively work better in its remaining years than certainly it has, let's say, in—early 1985.

Mr. GAYDOS. That concludes my questioning. I again compliment the chairman and Mr. Kolter for making this meeting a reality.

[The prepared statement of Mr. Gaydos follows:]

OPENING REMARKS FOR HEARING BY SUBCOMMITTEE ON COMMERCE, CONSUMER
AND MONETARY AFFAIRS (GOV. OPS.) IN PITTSBURGH, APRIL 4, 1986

CONGRESSMAN JOSEPH M. GAYDOS

I WANT TO THANK MY COLLEAGUES HERE, CONGRESSMAN DOUG BARNARD
OF GEORGIA, CHAIRMAN OF THE SUBCOMMITTEE ON COMMERCE, CONSUMER
AND MONETARY AFFAIRS, AND CONGRESSMAN JOE KOLTER, MY GOOD FRIEND
FROM BEAVER COUNTY AND A MEMBER OF THIS SUBCOMMITTEE, FOR
SCHEDULING THIS HEARING ON THE PRESIDENT'S STEEL PROGRAM AND FOR
INVITING OTHER CONGRESSMEN FROM WESTERN PENNSYLVANIA TO PARTICIPATE.

I LOOK FORWARD TO HEARING FROM THE WITNESSES, THOSE WHO
REPRESENT THE VARIOUS SEGMENTS OF THE STEEL INDUSTRY AS WELL AS
THOSE REPRESENTING STEELWORKERS WHOSE JOBS ARE AT RISK IF
SOMETHING ISN'T DONE TO STEM THE FLOW OF UNFAIRLY TRADED STEEL.

I REALLY WANT TO HEAR YOUR THOUGHTS ON THE PRESIDENT'S PROGRAM OF VOLUNTARY RESTRAINT AGREEMENTS AND YOUR VIEWS ON HOW WELL THE PROGRAM IS WORKING OR WHETHER WE NEED SOME OTHER KINDS OF APPROACHES.

I WILL TELL YOU QUITE FRANKLY THAT I HAVE MY DOUBTS ABOUT THE EFFECTIVENESS OF THE PROGRAM. THE RESULTS SO FAR ARE NOT TOO ENCOURAGING. IT IS TRUE THAT 1985 WAS NOT AS BAD AS 1984, A RECORD YEAR WHEN FOREIGN STEEL GOBBLED UP A 26.4 PER CENT SHARE OF THE AMERICAN STEEL MARKET, BUT IT WASN'T THAT MUCH BETTER.

LAST YEAR, THE FIRST FULL YEAR OF PRESIDENT'S PROGRAM, FOREIGN STEEL TOOK A 25.3 PER CENT SHARE OF THE AMERICAN MARKET, A FAR CRY FROM THE 20.5 PER CENT THAT IS SUPPOSED TO BE THE GOAL.

AND, JUST THREE WEEKS AGO, COMMERCE SECRETARY MALCOLM BALDRIDGE APPEARED BEFORE THE CONGRESSIONAL STEEL CAUCUS AND PAINTED A ROSY PICTURE, IMPLYING THAT STEEL IMPORTS COULD VERY WELL DROP TO THE TARGET LEVEL BY THE END OF 1986.

I HAVE MY OWN VIEWS OF THAT EXPECTATION, BUT I WOULD RATHER HEAR FROM YOU. WE NEED YOUR OPINIONS. WE NEED TO KNOW WHAT THE IMPACT OF IMPORTED STEEL IS ON YOUR BUSINESS OPERATIONS OR ON YOUR CHANCES OF KEEPING YOUR JOBS IN THE STEEL INDUSTRY.

ALL OF US HERE, WHETHER MEMBERS OF THE CONGRESSIONAL STEEL CAUCUS OR AS MEMBERS OF CONGRESS WILL BE FACED WITH DEVELOPING PROGRAMS AND FORMULATING POLICIES THAT KEEP OUR STEEL AND OTHER BASIC INDUSTRIES ALIVE AND HEALTHY AND, AT THE SAME, KEEP OUR ECONOMY MOVING SMOOTHLY.

-4-

AGAIN, MR. CHAIRMAN AND MR. KOLTER, I THANK YOU FOR THIS HEARING. THIS IS AN EXCELLENT OPPORTUNITY FOR US TO GET SOME NEW INSIGHTS INTO THE CURRENT STATE OF THE STEEL INDUSTRY AND A DIFFERENT PERSPECTIVE OF THE PRESIDENT'S PROGRAM ON STEEL.

Mr. BARNARD. Thank you, Joe, and thank you, Mr. Chairman. I might point out as to your last statement, I think Congress has been ahead of the President.

Mr. RODERICK. I agree with that on trade policy. There's no question.

Mr. BARNARD. So hopefully we can support him, and he will support us in every way possible.

We appreciate your testimony this morning. It's been very meaningful. I would like to submit to you in writing some further questions that would be helpful to this hearing. Perhaps some other colleagues would as well. And with your cooperation, we'd appreciate it if you could answer these other questions.

Mr. RODERICK. We will do so, Mr. Chairman, expeditiously.

Mr. BARNARD. Thank you very much.

Our next witness this morning is Mr. Lynn Williams. Mr. Williams is president of the United Steelworkers of America, and I would appreciate it if he would come forward at this time. Good morning, Mr. Williams.

Mr. WILLIAMS. Good morning.

Mr. BARNARD. We indeed appreciate your being with us today, and along with your esteemed colleagues, I would like to give you the opportunity to introduce them at this time.

Mr. WILLIAMS. Associated with me this morning, Mr. Chairman, members of the committee, is George Becker, our vice president of administration; and Jack Sheehan from Washington.

Mr. BARNARD. Mr. President, we would like to include your entire testimony in the record, and without objection, it will so be done. And if you would care to maybe abbreviate it within 10 or 12 minutes, we would appreciate it very much.

Mr. WILLIAMS. Well, I shall try, Mr. Chairman. I heard your earlier injunction, and I don't really have a reduced version, but I will reduce this version as we proceed.

Mr. BARNARD. Well, just do your best.

Mr. WILLIAMS. I'll do everything I can.

Mr. BARNARD. Thank you.

STATEMENT OF LYNN WILLIAMS, PRESIDENT, UNITED STEELWORKERS OF AMERICA, ACCOMPANIED BY GEORGE BECKER, VICE PRESIDENT OF ADMINISTRATION, AND JACK SHEEHAN, WASHINGTON, DC

Mr. WILLIAMS. Development of an overall industrial strategy in response to the problems confronting the steel industry has been an elusive objective which the USWA has been endorsing for some time. Obviously, the union has been trying to portray the impact upon steelworkers in their communities resulting from economic factors which are influencing workers' decisions on production, investment, employment, plant shutdowns, and capacity retrenchment. These decisions affect not only the steel community, but also the country as a whole because of the strategic status that the steel industry occupies in terms of being an economic base for industrial growth, and employment opportunities for thousands of workers, and a mobilization base for defense purposes.

The steel industry is unique not only in the United States, but in every country of the world. Unfortunately, while most countries recognize its pivotal importance, in the United States we have not been able to accept the need for, or incorporate a comprehensive approach to steel industry survival. I do not mean to deny that ad hoc measures have been taken to assist the industry in that some of them have been effective in their own area of application. But what has been lacking is a more coordinated program of measures undertaken in conjunction with one another so that the combined advantage could be achieved.

Instead we have witnessed a seriatim approach focusing at one time on collective bargaining and wage rates, and another time on trade, and subsequently on taxes and general economic policy. Presently the union is engaged in renegotiating the labor contract, but I can assure you that the margin of survival for steel firms is not simply within the scope of the wage rates. As we indicated, in a recent public advertisement, solutions require the joint efforts of labor, industry, Government, and financial institutions. It's now or never.

I realize that today's hearing has been scheduled as an oversight on the President's steel program. But the point I wanted to emphasize up front is that the steel program applies only to the import aspect of the circumstances confronting the steel industry and its workers. Before I present the USWA's views on the voluntary restraint agreements negotiated by the Government, it is important that I emphasize that the ultimate measure of its success and effectiveness will be dependent upon whether a whole range of measures, including the current wage negotiations, can be initiated. It is not enough to view the problem as being solely a trade-related one, although indeed the high levels of import penetration have seriously eroded the ability of the steel industry to cope with its other pressures.

Page 3 and page 4 represent historical review on assurance material you're all familiar with. So I think we can start with the top of page 5, continue at the top of page 5.

There is one aspect of the effectiveness of the program which I would like to describe in terms of a person who was injured in an automobile accident. While he is, of course, concerned about the quality of the service he has received in the hospital, and his ability to completely recover, his anger and frustration is high against the other driver who injured him. He quite rightly is mad that the damage has occurred in the first place. Ten years ago there were 370,000 production and maintenance workers employed in the steel industry, and imports constituted only 14 percent of consumption. Now there are less than 200,000 workers, and imports for 1985 reached 25.2 percent. During this period we succumbed to a wide range of import levels. One time they reached 33.5 percent. Total losses in the industry in the last 4 years were close to \$7 billion. Since 1974, 15 steel companies have gone out of business. Thirty complete steel plants have been closed, and 560 production units of other plants have been terminated. Total employment has shrunk by more than 50 percent. Thirty million tons of capacity has been eliminated.

We are receiving treatment now through the imposition of the VRA program. But, Mr. Chairman, we ask why were we allowed to be hit so badly by unfair imports in the first place? No amount of relief will compensate for the injury already received. Actually, the relief is proposed to arrest future injury, but the damage has already occurred, and there are some mills and thousands of workers who will not be made whole. Hence, our review of the VRA is influenced by a long period of continued injury during which there is not restraint of admittedly unfair or subsidized steel imports.

The second observation distinguishes between the VRA program and the VRA enforcement. The President, when he announced on September 14, 1984, that he would engage in a process of steel trade negotiations to reduce the surge levels of import penetration, affirmed that the expected level of imports would not exceed 20.2 percent of apparent supply. The Congress also reiterated the expectation that these arrangements should result in an import level no greater than 20.2 percent.

It is the sense of Congress that when the policy is fully implemented, it will result in a foreign share in the domestic market of 17 to 22.2 percent.

It is a matter of record that the Congress was emphatic in its expectation that the program be effective.

If the national policy for the steel industry does not produce satisfactory results in a reasonable period of time, Congress will consider taking such legislative actions concerning steel and iron ore products as may be necessary or appropriate to stabilize conditions in the domestic market for such products.

Unfortunately, as the period for negotiated arrangements draws to a close, the President's target has substantially been exceeded. Estimates place the effectiveness between 23.2 percent and 24.5 percent, as we have heard.

The President's program is not, however, without benefit. Some analysts have predicted that steel imports could have reached as high as 38 percent of our market by now. The VRA's have certainly eliminated that threat. Furthermore, according to the Congressional Research Service, the VRA's have reduced market penetration by 3.2 percentage points from the 1984 level of 26.4 percent. That reduction increased domestic production by 3 million tons per year, and increased jobs in the steel sector by 7,400, and by about 19,000 in steel-related sectors. However, these accomplishments must be measured against the original purpose of the program.

Inherently, the President's program, which rejected a global approach and depended upon separate negotiation sessions, made it unlikely that the targeted levels would be attained. Additionally, since the negotiation process did not begin with at least a freeze or moratorium on the then current levels of imports until a negotiated settlement was developed, there occurred a rush to the border as each country tried to establish a higher base of imports prior to the negotiation stage from which it might make concessions. Admittedly, the President's program did require that these rushes would be retroactively offset in 1986. Nevertheless, we needlessly lost production and jobs during the 1985 negotiation period.

Our basic objection, however, pertains to the fact that not all countries have negotiated restraint arrangements, with Canada,

Sweden, Taiwan, and Argentina being major nonparticipants, and that the 20.2-percent target is not being met. Presently, the import levels will not be lower than 23.4 percent.

The attached sheet indicates that the allotted shares for each of the VRA participants equals 16.8 percent of finished steel products. If the 1985 levels of 4.5-percent share for the non-VRA countries were frozen, the resultant import penetration would reach 21.3 percent as against an 18.5 percent for finished steel products.

The level for semifinished steel products at 1.7 million tons is also being exceeded. The negotiated levels assure 1.83 million tons, while the non-VRA's in 1985 shipped 344,000 tons for an aggregate of 2.17 million tons. These overages in semifinished products, particularly slabs, signal a reduction in the front-end or steelmaking capacity of our integrated steel mills. It is a prospect which the steelworkers have vigorously decried, specifically the attempted joint venture between United States Steel and the British Steel Corp., and the present venture arrangement with the Korean steel company, POSCO. The loss of this capacity is irretrievable and will ultimately be a detriment to the United States.

According to the study by Mr. David Cantor of the Congressional Research Service of the Library of Congress, because of the failure of the President's program to reach its targeted goals, there is a significant loss in potential production and recall of laidoff steelworkers.

While we have been critical that the administration's program has not achieved the target import level, our apprehension has been heightened by recent indications that the USTR might allow even additional increases over the negotiated levels. Not only might there be negotiated increases, but the breakthrough will be condoned in one product line, the importation of which, as I have said previously, constituted a serious threat to front-end operations. I referred to the fact that the European Community is pressuring the U.S. Government to increase its allotment of semifinished steel. Let me be very frank, the EEC has been most recalcitrant in refusing to negotiate a VRA on semifinished products. It took a strong position on the part of the Government to impose unilateral import quotas upon these particular European steel mill products. All other steel items are covered by the arrangements except this category. Despite the fact that the European Community threatened trade retaliation, a threat which it subsequently carried out, the Government proceeded with unilateral action after negotiations broke down.

However, there is pressure upon the Government to relent and allow the quota amount to rise to 800,000 tons of which 200,000 will be retained for the British Steel Corp. for its slab supply arrangement with Tuscaloosa Steel Corp. The quid pro quo would be that the EEC would in turn sign a VRA bringing these items under license control and withdraw its retaliation.

Steelworkers must insist that this would be of no value at all. To accede to this demand would be to allow the President's target of 1.7 million tons of semifinished steel to be exceeded by more than 30 percent. USWA expresses in the strongest terms possible that such an exceedence should not be allowed to occur. You are already aware of what United States Steel is proposing in its joint

venture with Pohang Iron and Steel Co. of South Korea. Such a venture, to become effective in 1989, is expected to result in the termination of the United States Steel facility at Provo, UT.

If more slabs are available during the restraint period, it would put a severe strain on those domestic steel firms which are interested in upgrading their steelmaking capacity. I realize that it is only a steel mill which is the recipient of imported slabs. But if one company begins an extensive program to replace its front-end capacity, other steel firms would be under competitive pressure to follow suit. It could result in the fact that our steel-finishing capacity might be undersubscribed by our domestic supply of raw steel. While the union is disturbed by any retrenchment of the current steelmaking capacity, that capacity should at least be sufficient to supply our rolling or finishing needs. However, short-term economic advantages, stimulated by a loosening of the President's target on semifinished steel imports, could very well push individual firms into a position of not being self-sufficient. It may be asked whether the Tuscaloosa Steel and California Steel situations will become widespread. Certainly the present VRA program, at least for the 5-year period, should postpone and hopefully eventually prevent the depletion of steelmaking capacity.

We cannot accept that a VRA system devised to give the industry a breathing spell to recoup, would tolerate the disruptive influence of such high levels of semifinished steel from Europe. The current action by the Government should be left in place.

We have, therefore, Mr. Chairman, called for additional congressional action to codify the President's program so as to achieve the 20.2-percent goal. Legislation is needed to correct this basic defect in the program. We are firmly convinced that an import level of 20.2 percent is itself too high to allow for the market stability needed by the steel industry to engage in full recovery measures. However, a 15-percent excess in the target makes the prospects of, and potential for, needed capital formation for modernization investment even more uncertain.

The steel export restraints are very complicated and complex arrangements. Enforcement of them, therefore, will require detailed strategies and surveillance. The union has established a steelworkers' VRA compliance monitoring committee to engage in this process. We are at this time appreciative of the cooperative reception which the committee received from the Department of Commerce which is charged with the overall enforcement responsibility. The Department has incorporated an elaborate system to assure compliance with the individual arrangements, a system which requires each ton of steel imports to be accompanied by an export certificate issued under a licensed procedure.

The continued high levels of imports throughout 1985 and persisting in 1986 has caused severe credibility problems with the program. I am aware that there were legitimate reasons for the early surges during the negotiation period, which surges will be offset in succeeding time periods. Nevertheless, the break-in period is much too lengthy when we realize that the excess imports are translated into laidoff steelworkers. Preliminary reports indicate that February imports took 26.6 percent of the domestic market. These early projections may be adjusted downward giving more credence to the

enforcement and effectiveness of the VRA system. However, even though these adjusted imports were exported from other countries last November and December, and, hence, may not represent a violation of the VRA's, their accumulative pressure does cause serious strains on public perception of the effectiveness of the program. Hopefully, we are drawing to the end of the so-called break-in period. Otherwise, there will be a breakdown of the program.

We have every reason to believe that the Department of Commerce and Customs officials are seriously dedicated to a strict enforcement of the particular agreements. Nevertheless, the original arrangements have built into them certain flexibilities which must be closely monitored so as to assure that they do not become loophole opportunities.

And then there's a good deal of detail concerning such loopholes and aversion. I think we can really move right along to the bottom of page 19.

Deputy Assistant Secretary Gilbert Kaplan warned officials of the VRA countries that the Department of Commerce intends to respond to this type of circumvention through the application of unfair trade measures against transformed imported steel when appropriate.

Certainly this type of concern is warranted. Actually, the steelworkers feel that additional legislative authority is necessary so as to properly credit a VRA country of origin with any steel mill item transformed in another country.

The steelworker is painfully aware that these arrangements have been negotiated settlements. Without congressional action to mandate the outer limits for the negotiations and without the granting of unilateral authority to impose those limits, these arrangements have strayed from their target. We do not deny their value, but are conscious of the missed opportunity in terms of more production, more capital formation, more jobs.

Furthermore, as a union, we realize that all contracts must be closely monitored. That is why we have a grievance procedure in labor agreements. But all agreements spring leaks, especially in terms of interpretation.

Hence, as I have indicated in this testimony, we are seeking congressional intervention in two areas, to codify the President's 20.2-percent target, and to clarify enforcement interpretations.

We are appreciative of your visit to our city. This is the heartland of steel and the headquarter center of some of the major steel companies, and our union. It is an area that has been hard hit, to say the least. Thus, as you hopefully prepare a report on your oversight of the voluntary steel export restraint arrangement, you will be able to absorb some of the local pain and despair which are the consequences of the steel crisis. Perhaps we can recapture a predominance for steel, or at least a revitalization. Our steelworkers and our steel communities are dependent upon that expectation. Certainly, we have at hand the tools to effectuate a comprehensive solution. What we need is the push to initiate it.

[The prepared statement of Mr. Williams follows:]

TESTIMONY

of

Lynn Williams, President
UNITED STEELWORKERS OF AMERICA

before the

Commerce, Consumer, and Monetary Affairs
Subcommittee
of the
Committee on Government Operations

at

Oversight Hearing
President's Steel Program
VRA Enforcement

April 4, 1986
Pittsburgh, PA

VRA Enforcement

Development of an overall industrial strategy in response to the problems confronting the steel industry has been an elusive objective which the USWA has been endorsing for some time. Obviously, the Union has been trying to portray the impact upon steelworkers and their communities resulting from economic factors which are influencing corporate decisions on production, investment, employment, plant shutdowns and capacity retrenchment. These decisions affect not only the steel community, but also the country as a whole because of the strategic status which the steel industry occupies in terms of being an economic base for industrial growth, an employment opportunity for thousands of workers, and a mobilization base for defense purposes.

The steel industry is unique not only in the United States, but in every country of the world. Unfortunately, while most countries recognize its pivotal importance, in the U.S. we have not been able to accept the need for, or incorporate, a more comprehensive approach to steel industry survival. I do not mean to deny that ad hoc measures have not been taken to assist the industry and that some of them have been effective in their own area of application. But what has been lacking is a more coordinated program of measures undertaken in conjunction with one another so that the combined advantage could be achieved.

Instead, we have witnessed a seriatim approach focusing at one time on collective bargaining and wage rates; at another time on trade; and subsequently on taxes and general economic policies. Presently the Union is engaged in renegotiating the labor contracts. But I can assure you that the margin of survival for steel firms is not simply within the scope of the wage rates. As we indicated in a recent public advertisement: "Solutions require the joint efforts of labor, industry, government and financial institutions. It's now or never."

I realize that today's hearings have been scheduled as an oversight on the President's steel program. But the point I wanted to emphasize up front is that the steel program applies only to the import aspects of the circumstances confronting the steel industry and its workers. Before I present the USWA's views on the voluntary restraint agreements negotiated by the government, it is important that I emphasize that the ultimate measure of its success and effectiveness will be dependent upon whether a whole range of measures - including the current wage negotiations - can be initiated. It is not enough to view the problem as being solely a trade-related one, although indeed the high levels of import penetration have seriously eroded the ability of the steel industry to cope with its other pressures.

The Administration in September 1984 announced a program to address the constantly accelerating levels of steel imports. During the previous two years (1983-1984), the Union and the industry had been sounding the warning bells. Unfairly traded steel was flooding our markets. A global steel quota bill received 226 cosponsors in the House, and the U. S. International Trade Commission, upon the filing of a safeguard Section 201 petition, found that imports were a significant cause of severe injury to the domestic industry and its employees. The USITC recommended that remedial relief be undertaken. In 1981, a previous complaint by the industry that the Common Market countries were, in fact, devastating our marketplace with subsidized steel mill products and unfair trade practices resulted in a limited restraint agreement with the EEC.

With that backdrop, the current Administration initiated the present response, the basics of which are as follows:

1. rejection of the ITC's recommendation of quota relief despite its findings of severe injury;
2. objection to congressional action on a steel quota bill;
3. negotiations with our trading partners to encourage them to voluntarily restrain their imports for a period of five years;
4. statement that the voluntary export restraint arrangements would reduce steel imports to 18½

for finished steel and 1.7% for semifinished steel mill products - an aggregate control of 20.2%;

5. application of the arrangements, regardless of when finally signed, retroactively to October 1984.

Approximately 27 countries have signed these Arrangements. The bulk of these settlements was arranged by mid-1985, although the Common Market arrangement was not finalized until early 1986.

It should also be noted that since the President's program was a series of negotiated export arrangements by our trading partners, U. S. Customs officials had no statutory authority to enforce them. If the President had imposed import quotas under the Section 201 petition, it would have been otherwise. Hence, an essential part of the President's program was the fact that the Congress, through the Trade and Tariff Act of 1984 in the Steel Trade Stabilization Section VIII, granted the government the legal powers to enforce the export restraints of other countries. That enforcement authority is being jointly administered by the Department of Commerce and the Customs Service.

Your Committee, of course, is interested in the effectiveness of these Arrangements. To respond to that inquiry, it is necessary to make three comparisons or evaluations:

1. Persistent Inroads of Imports

There is one aspect of the effectiveness of the program which I would like to describe in terms of a person who was injured in an automobile accident. While he is, of course, concerned about the quality of the service he has received in the hospital and his ability to completely recover, his anger and frustration is high against the other driver who injured him. He quite rightly is mad that the damage has occurred in the first place. Ten years ago there were 370,000 production and maintenance workers employed in the steel industry and imports constituted only 14% of consumption. Now there are less than 200,000 workers and imports for 1985 reached 25.2%. During this period, we succumbed to a wide range of import levels. At one time they reached 33.5%. Total losses in the industry in the last four years were close to \$7 billion. Since 1974, 15 steel companies have gone out of business. Thirty complete steel plants have been closed and 560 production units in other plants have been terminated. Total employment has shrunk by more than 50%. Thirty million tons of capacity have been eliminated.

We are receiving treatment now through the imposition of the VRA program. But, Mr. Chairman, we ask: Why were we allowed to be hit so badly by unfair imports in the first

place? No amount of relief will compensate for the injury already received. Actually the relief is proposed to arrest future injury. But the damage has already occurred and there are some mills and thousands of workers who will not be made whole. Hence, our review of the VRA's is influenced by the long period of continued injury during which there was no restraint of admittedly unfair or subsidized steel imports.

Nevertheless, we do view the five-year duration of the restraint period as necessary to provide an environment of trade stability so that the domestic steel industry could recover from the injury. We, therefore, emphasize and urge that any return to marginal profitability by steel firms should not trigger a request for repeal of the VRA's since the recovery stage should be devoted to a restructuring of, and reinvestment in steel facilities long neglected because of the prolonged injury.

2. Expected levels of imports.

The second observation distinguishes between the VRA program and the VRA enforcement. The President, when he announced on September 14, 1984, that he would engage in a process of steel trade negotiations to reduce the "surge levels" of import penetration, affirmed that the expected level of imports would not exceed 20.2% of apparent supply.

The Congress also reiterated the expectation that these Arrangements should result in an import level no greater than 20.2%.

It is the sense of Congress that when this policy is fully implemented, it will result in a foreign share of the domestic market of 17.0 % to 20.2%.

It is a matter of record that the Congress was emphatic in its expectation that the program be effective:

. . .if the national policy for the steel industry does not produce satisfactory results within a reasonable period of time, the Congress will consider taking such legislative actions concerning steel and iron ore products as may be necessary or appropriate to stabilize conditions in the domestic market for such products.

Unfortunately, as the period for negotiated arrangements draws to a close, the President's target has substantially been exceeded. Estimates place the effectiveness between 23.2% to 24.5%.

The President's program is not, however, without benefit. Some analysts have predicted that steel imports could have reached as high as 38% of our market by now. The VRA's have certainly eliminated that threat. Furthermore, according to the Congressional Research Service, the VRA's have reduced market penetration by 3.2 percentage points from the 1984 level of 26.4%. That reduction increased

domestic production by 3.0 million tons per year and increased jobs in the steel sector by 7,400 and by about 19,000 in steel-related sectors. However, these accomplishments must be measured against the original purpose of the program.

Inherently, the President's program, which rejected a global approach and depended upon separate negotiation sessions, made it unlikely that the targeted levels would be attained. Additionally, since the negotiation process did not begin with at least a freeze or moratorium on the then current levels of imports until a negotiated settlement was developed, there occurred a "rush to the border" as each country tried to establish a higher base of imports prior to the negotiation stage from which it might make concessions. Admittedly, the President's program did require that these "rushes" would be retroactively offset in 1986. Nevertheless, we needlessly lost production and jobs during the 1985 negotiation period.

Our basic objection, however, pertains to the fact that:

- o not all countries have negotiated restraint arrangements, with Canada, Sweden, Taiwan and Argentina being major non-participants; and
- o the 20.2% target has not been met. Presently, the import levels will not be lower than 23.4%.

The attached sheet indicates that the allotted shares for each of the VRA participants equals 16.8% of finished steel products. If the 1985 levels of 4.5% share for the nonVRA countries were frozen, the resultant import penetration would reach 21.3% as against an 18.5% for finished steel products.

The level for semifinished steel products at 1.7 million tons is also being exceeded. The negotiated levels assure 1.83 million tons while the nonVRA's in 1985 shipped 344,000 tons for an aggregate of 2.17 million tons. These overages in semifinished products, particularly slabs, signal a reduction in the front-end or steelmaking capacity of our integrated steel mills. It is a prospect which the USWA has vigorously decried, specifically the attempted joint venture between U. S. Steel and the British Steel Corporation and the present venture arrangement with the Korean steel company, POSCO. The loss of this capacity is irretrievable and will ultimately be a detriment to the United States.

According to a study by Mr. David Cantor of the Congressional Research Service of the Library of Congress, because of the failure of the President's program to reach its targeted goals, there is a significant loss in potential production and recall of laid-off steelworkers:

Being unable to reach the target import market share by 3.0 percentage points /from 23.2% to 20.2%/ implies a 'missed opportunity' to produce an additional 2.8 million tons of steel. In constant 1972 dollars, this 'cost' tonnage implies about \$1.1 billion in output for steel and steel-related sectors, of which nearly \$600 million could have been produced in the steel industry. This 'missed industry' implies about 26,000 jobs of which more than 7,800 would have been in the steel industry.

While we have been critical that the Administration's program has not achieved the target import level, our apprehension has been heightened by recent indications that the USTR might allow even additional increases over the negotiated levels. Not only might there be negotiated increases, but the breakthrough will be condoned in one product line, the importation of which, as I have said previously, constituted a serious threat to front-end operations. I referred to the fact that the European Community is pressuring the U. S. Government to increase its allotment of semifinished steel. Let me be very frank, the EEC has been most recalcitrant in refusing to negotiate a VRA on semifinished products. It took a strong position on the part of the government to impose unilateral import quotas upon these particular European steel mill products. All other steel items were covered by the Arrangements except this category. Despite the fact that the European

Community threatened trade retaliation - a threat which it subsequently carried out - the government proceeded with the unilateral action after negotiations broke down. However, in developing the restrictions on finished products, the government was most generous in the fact that it granted an access for 600,000 tons of semifinished steel. In 1982 when the Community originally agreed to an understanding on these imports, the tonnage was only about 150,000 tons. But in the ensuing four years, it accelerated the amount to almost one million tons. This was an unconscionable giveaway. It did so to circumvent the fixed 1982 VRA controls placed upon other steel mill items. Again, when the Community was renegotiating an extension of the 1986 Agreement, it pursued the same tactic and wanted its illgotten share to be enshrined in its new VRA. To its credit, the USTR resisted. Furthermore, according to the American Metal Market, the government has refused to allow any release of EEC semifinished steel which has been stored in the U. S. awaiting entry through Customs. According to reports, these stockpiles equal almost three times their quarterly quota imposed by the government.

However, there is pressure upon the government to relent and allow the quota amount to rise to 800,000 tons of which 200,000 would be retained for the British Steel

Corporation for its slab supply arrangement with Tuscaloosa Steel Corporation. The quid pro quo would be that the EEC would in turn sign a VRA bringing these items under license control and withdraw its retaliation.

USWA must insist that this would be no value at all. To accede to this demand would be to allow the President's target of 1.7 million tons of semifinished steel to be exceeded by more than 30%. USWA expresses in the strongest terms possible that such an exceedance should not be allowed to occur. You are already aware of what U. S. Steel is proposing in its joint venture with Pohang Iron and Steel Company of South Korea. Such a venture, to become effective in 1989, is expected to result in the termination of the United States Steel's facility at Provo, Utah.

If more slabs are available during the restraint period, it would put a severe strain on those domestic steel firms which are interested in upgrading their steelmaking capacity. I realize that it is only a steel mill which is the recipient of imported slabs. But if one company begins an extensive program to replace its front-end capacity, other steel firms would be under competitive pressure to follow suit. It could result in the fact that our steel finishing capacity might be undersubscribed by our domestic supply of raw steel. While the Union is disturbed by any

retrenchment of current steelmaking capacity, that capacity should at least be sufficient to supply our rolling or finishing needs. However, short term economic advantages, stimulated by a loosening of the President's target on semifinished steel imports, could very well push individual firms into a position of not being self-sufficient. It may be asked as to whether the Tuscaloosa Steel and California Steel situations will become widespread. Certainly the present VRA program -at least for the five-year period - should postpone and hopefully eventually prevent the depletion of steelmaking capacity.

We cannot accept that a VRA system, devised to give the industry a breathing spell to recoup, would tolerate the disruptive influence of such high levels of semifinished steel from Europe. The current action by the government should be left in place.

We have, therefore, Mr. Chairman, called for additional congressional action to codify the President's program so as to achieve the 20.2% goal. Legislation is needed to correct this basic defect in the program. We are firmly convinced that an import level at 20.2% is itself too high to allow for the market stability needed by the steel industry to engage in full recovery measures. However, a 15% excess in

the target makes the prospects of, and potential for needed capital formation for modernization investment even more uncertain.

You can understand, Mr. Chairman, why the United Steelworkers feels that the President's program is not working. It has never been fully imposed at the levels designed to achieve maximum results. Without legislation to achieve the original import goal, then certainly additional compensatory measures should be entertained whereby there could be a net increase in domestic steel production. Certainly, there should be a full one hundred percent Buy America requirement imposed on all government procurement involving steel mill products. We were dismayed that the President successfully opposed a Buy America provision attached by Congress to the procurement of oil drilling rigs utilized on the Outer Continental Shelf. That approach went in the opposite direction of what was needed in lieu of the fact that the 20.2% target for the VRA's was not being met.

Cutback on an infrastructure program at this time is also detrimental to a steel recovery opportunity. A recent article in the Journal of Commerce indicated: "The Reagan Administration has been controlling federal trust funds to help the budget deficit picture while curbing programs those funds are intended to support." The trust funds have been

accumulated, but at least \$75 billion are being diverted to other uses. Many of these infrastructure programs are steel intensive and hence could offset to some extent the deficit in the President's steel program, while at the same time meeting the social needs to which the trust funds are devoted. Hence, we cannot agree with the recent statement that Secretary Baldrige made to the House Steel Caucus: "The President's program is working. . . The President's program is a success."

3. VRA Enforcement

The steel export restraints are very complicated and complex arrangements. Enforcement of them, therefore, will require detailed strategies and surveillance. The Union has established a USWA/VRA Compliance Monitoring Committee to engage in this process. We are at this time appreciative of the cooperative reception which the committee received from the Department of Commerce which is charged with the overall enforcement responsibility. The Department has incorporated an elaborate system to assure compliance with the individual arrangements, a system which requires each ton of steel imports to be accompanied by an export certificate issued under a licensed procedure.

The continued high levels of imports throughout 1985 and persisting into 1986 has caused severe credibility problems with the program. I am aware that there were legitimate reasons for the early surges during the negotiation period, which surges will be offset in succeeding time periods. Nevertheless, the "break-in" period is much too lengthy when we realize that the excess imports are translated into laid-off steelworkers. Preliminary reports indicate that February imports took 26.6% of the domestic market. These early projections may be adjusted downward giving more credence to the enforcement and effectiveness of the VRA system. However, even though these adjusted imports were "exported" from other countries last November and December and, hence, may not represent a violation of the VRA's, their accumulative pressure does cause serious strains on public perception of the effectiveness of the program. Hopefully, we are drawing to the end of the so-called break-in period. Otherwise, there will be a breakdown of the program.

We have every reason to believe that the DOC and Customs officials are seriously dedicated to a strict enforcement of the particular agreements. Nevertheless, the original arrangements have built into them certain flexibilities which must be closely monitored so as to

assure that they do not become loophole opportunities.

Thus, for instance, the original agreements were negotiated in a fashion to control not only the aggregate amount of steel being exported, but were also designed to restrain specific product items. However, some of the agreements are more product-specific than others. Obviously because of the product differentiation of the various steel firms, each of them has a more specific concern about the particular product quota than the overall import averages. Moreover, an exporting country could exploit an advantage in a less product-specific agreement by shifting its exports from lower-valued product lines to higher-valued products. This certainly presents an enforcement problem, but its roots are in the negotiating process. Fortunately, the agreements provide that where the quotas are not product-specific enough, the government can seek consultations to arrest the increased imports in certain product lines within a general category. When it can be demonstrated that shifting has occurred, a mutual solution to break out a new category with specific controls can evolve. However, failing that, the government did in the agreements reserve to itself the unilateral right to take action to impose subcategorical controls. Secretary Baldrige indicated that such mutual consultations occurred with regard to electric

steel from Japan and Brazil and standard pipe from Korea.

However, monitoring of this aspect of the arrangements will require very close coordination and cooperation with all the parties both private and public. Otherwise, while the aggregate limits might be observed, there could be severe structural damage in certain product lines and with the firms dependent upon that line of production.

Of particular concern are two avenues of circumvention. One relates to the transshipment of steel from a VRA country through a nonVRA country, thereby changing the country of origin. This could constitute a clear violation of the Arrangements and should receive tight monitoring by the government. We welcome Secretary Baldrige's statement that "Any information that suggests the possibility of fraudulent activity /will be/ immediately turned over to the U. S. Customs for investigation."

Another avenue of grave concern relates to shipment of steel from a controlled country to a nonVRA country where it undergoes "substantial transformation." In such a situation, the final product might be deemed eligible to escape control and not be credited to the allocated export quotas of the country of origin. We understand that there is a long-standing policy at Customs to reclassify an import product which undergoes substantial transformation after

having been received by a second country. While this approach might be appropriate for general statistical accounting of overall imports, it can present an opportunity for circumvention of a quota system. So far, one ruling from Customs will allow Panamanian tubular products fabricated from imported steel sheet to be declared a product of Panama - a nonVRA country. Hence, that item will enter the U.S. market duty and quota free even though the country of origin of the sheets is a VRA country subjected to an export quota on sheets shipped to this market. However, in another case, Customs rejected an attempt to avoid the controls on pipe purchased from a VRA country by having it processed in a minor way in Costa Rica.

Deputy Assistant Secretary Gilbert Kaplan warned officials of the VRA countries that DOC intends to respond to this type of circumvention through the application of unfair trade measures against transformed imported steel when appropriate.

Certainly this type of concern is warranted. Actually, the USWA feels that additional legislative authority is necessary so as to properly credit a VRA country of origin with any steel mill item transformed in another country.

Conclusion

The USWA is painfully aware that these Arrangements have been negotiated settlements. Without congressional action to mandate the outer limits for the negotiations and without the granting of unilateral authority to impose those limits, these Arrangements have strayed from their target. We do not deny their value, but are conscious of the "missed opportunity" in terms of more production, more capital formation, more jobs.

Furthermore, as a Union, we realize that all contracts must be closely monitored. That is why we have a grievance procedure in labor agreements. But all agreements spring leaks, especially in terms of interpretations.

Hence, as I have indicated in this testimony, we are seeking congressional intervention in two areas:

- to codify the President's 20.2 percent target; and
- to clarify enforcement interpretations.

We are appreciative of your visit to our city. This is the heartland of steel and the headquarters center for some of the major steel companies and our Union. It is an area that has been hard hit. Thus, as you hopefully prepare a report on your oversight of the voluntary steel export restraint arrangement, you will be able to absorb some of the local pain and despair which are the consequences of the

steel crisis. Perhaps we can recapture a predominance for steel - or at least a revitalization. Our steelworkers and steel communities are dependent upon that expectation. Certainly, we have at hand the tools to effectuate a comprehensive solution. What we need is the push to initiate it.

INTERNATIONAL STEEL ARRANGEMENTS
I/P Levels as of 12/9/85 -- Finished Products

<u>STATUS:</u>	<u>COUNTRY:</u>	<u>I/P%:</u>
<u>In Effect:</u>	Australia	.18
	Austria	.235
	Brazil	.8
	Czechoslovakia	.04 (a)
	East Germany	.11 (a)
	E.C.	5.5 (b)
	Finland	.224
	Hungary	.034 (a)
	Japan	5.8
	Mexico	.36
	Poland	.09 (a)
	Portugal	.055 (a)
	Romania	.15 (a)
	S. Africa	.42
	S. Korea	1.9
	Spain	.67
	Venezuela	.24 (a)

16.808

	<u>I/P</u> <u>ESTIMATE #1(c)</u>	<u>I/P</u> <u>ESTIMATE #2(e)</u>	<u>I/P</u> <u>ESTIMATE #3(f)</u>
<u>To Be Negotiated:</u>			
Argentina	.195	.30	.17
Canada	2.4	3.02	3.07
Sweden	.26	.40	.37
All Other	<u>1.0 (d)</u>	<u>.54</u>	<u>.91</u>
Total Estimated Finished Product I/P	20.663	21.068	21.328

(a) I/p's estimated using 100 million net tons of U.S. domestic apparent supply.

(b) Assumes ratification of October 31, 1985 agreement with E.C.

(c) Estimates based on our understanding of U.S. government "target" or "possible" i/p levels.

(d) A "guesstimate" -- could go above this if foreign suppliers with whom no negotiations are contemplated substantially increase their i/p.

(e) Assumes i/p for these countries and "all other" remains at 1984 level.

(f) Assumes i/p for these countries and "all other" remains at level of first 9 months 1985.

Note: The Arrangements do not specify total country i/p's but only i/p's for a particular product or product category. The total country i/p's shown in the tabulation are the closest approximations that can be estimated based on projected apparent domestic supply and product mix.

President's Steel Program - Semifinished Steel

	<u>Net Tons</u>	
	<u>Yearly Allocation under Arrangements</u>	<u>Actual Imports 11 mos. 1985</u>
Australia	50,000	
EC	600,000*	887,341
Finland	15,000	14,313
S. Africa	100,000	38,203
S. Korea	50,000	45,879
Spain	50,000	10,766
Mexico	100,000	4,888
Brazil	700,000	851,571
Japan	100,000	4,711
Venezuela	60,000	41,304
Canada		62,775
Sweden		282,193
	1,825,000 N.T.	2,243,944 N.T.
All Sources		2,252,246

* May be increased, by 37,500 in 1986 and more in subsequent years, at discretion of USTR.

Mr. BARNARD. Thank you very much. Mr. Williams, and we certainly appreciate your cooperation in the time element, and your entire testimony, of course, will be included in the record.

Mr. Williams, in last Sunday's New York Times there was an article about negotiations between United States Steel and United Steelworkers for a new contract. In the course of the article the writer attributes United States Steel's reluctance to get right into the negotiations as follows:

Part of the company's reluctance is that it says the union is asking the company to demand restraints it said it would not seek after the steel industry won the Reagan administration's acceptance in 1985 for voluntary restraints on steel imports. The company says it also agreed not to criticize the administration's steel program.

The union's 1986 bargaining program seeks stringent measures to reduce what the union calls cheap subsidized foreign imports.

Mr. Williams, do you think this is an accurate description of the union's demands in this area?

Mr. WILLIAMS. Insofar as it goes. Our proposal in terms of opening negotiations were somewhat more broadly put than that. We believe there's a crisis, which is obvious. We believe not only in the steel industry, but really in industrial America, we think we're rapidly losing our industrial base, and our ability to produce goods, and we think fundamental to all of that, of course, is the steel industry, and steelworkers.

We were conscious of the fact that this being a negotiating year that had some importance, and we felt that we should get at the process of negotiations with the various companies in a studying of the industry, which had been referred to earlier this morning, and we talked with our members as represented our—conference on how we might proceed to deal with those difficulties and those problems.

And the solution which emerged from our internal discussions was that we should approach all the companies with the suggestion that we would be willing to engage in early bargaining if they would join with us in a cooperative program to deal on a broad-based way with the crisis in the steel industry, and crisis in industry generally.

We included as part of that program ideas to try and come to tighter grips with the employer penetration problem. We are not satisfied with the President's program, and it has not achieved its announced goals, and those expectations have not been reached, and we're now many months, getting into years, into the program.

So that certainly tighter import effective—deal with import penetration was included in that program. We talked about a number of other things like working on the infrastructure in the country, and seeking more uses for steel, dealing with the indirect import problems in which Mr. Roderick concurred at the end of his testimony.

United States Steel, of course, will have to explain their response themselves. The only thing I know is what I read, which was that they didn't feel that they should adopt—have to adopt a political philosophy at the United Steelworkers in order to engage in collective bargaining. Frankly, we felt that response was somewhat excessive. So did some of my colleagues. If the company really wanted

to see a political philosophy I suppose we can provide them one. We felt what we were proposing was a practical, pragmatic kind of approach to a number of these problems. And the other companies did sign what we call crisis agreements with us to proceed jointly with such a program. And we've been working on that program together in a variety of areas, and frankly I believe that the program as it emerges will have many aspects of which United States Steel as one of the other companies will be quite comfortable, and we always hold forth the hope that they and other companies in the industry will join with us in these efforts, and the unions and labor movement will join with us in these efforts.

Mr. BARNARD. Do you think that your demands violate in your opinion any agreement that we know of between United States Steel and the Reagan administration?

Mr. WILLIAMS. Well, I'm not aware of any agreements they might have. Certainly I am aware of the fact that the industry is consulted in terms of developing the VRA program. I don't know what, if any, commitments were made particularly. We were not involved in those consultations with the union, and we expressed a good deal of—any reservations about the program right from the beginning that we felt was not tight enough, and was not specific enough, to really give us a problem.

We, as Mr. Roderick indicated, were very active in the Fair Trade and Steel Act. We felt that the 15-percent quota idea, doing that across the board, was realistic, and a reasonable approach. The U.S. market remains a—of the market than any other market in the world. When you talk even about 15-percent import restraint you're talking of much tighter restraint.

I read the other day that the European Common Market took some pleasure in the fact that import restraint this year in the European Common Market would be at the level of 13 percent. Well, if we could get to 13 percent we'd think we were in heaven, relatively speaking, and yet it's the Europeans who make so much of retaliation, and all such matters every time—question it this time.

Mr. BARNARD. Mr. Williams, one aspect of all of this that we haven't gotten into too much this morning, and that is Customs Service enforcement. We found that in the textile industry, this is a real, real problem as far as enforcing import quotas on the part of the Customs.

In your experience, is the Customs Service doing an adequate job in monitoring imports to make sure that they adhere to tariff schedules and VRA limits?

Mr. WILLIAMS. I wouldn't want to present myself as too much of an expert on that, but as a matter of fact, we have, as I mentioned, put in place our own committee to mold itself, and monitor, if you will. And Mr. Sheehan, my colleague, was discussing that with me a little bit at breakfast this morning, and was saying that the Customs Service was certainly doing a better job than we may be anticipating they would if they have—Jack was advising me 100 steel specialists in place at the various centers around the country where the imports come in, and they're really working quite vigorously. We'll know more about that as—

Mr. BARNARD. Do they have enough Customs agents to really adequately monitor the program?

Mr. WILLIAMS. Well, I can't really answer that question. I think—I told you as much as I know about it, up to date this morning. Whether 100 is enough I suppose is questionable, and we will with our own committee look at this in much more detail.

Mr. BARNARD. From our textile hearings we came away with the finding that probably no more than 10 percent of the imports were really inspected.

Mr. WILLIAMS. I understand that. I do think that the textile problem in terms of monitoring imports is probably a much more complicated procedure than it would be with steel. Steel is pretty big stuff, and pretty difficult to hide. There are a lot of elements. I suppose, in favor of being able to monitor steel more easily than textiles.

Mr. BARNARD. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman. Mr. Williams—of the Trade and Tariff Act of 1984, the Steel Imports Stabilization Act, requires the major steel companies to set aside 1 percent of their net cash-flow for worker retraining programs.

Can you tell the committee how much money has been set aside for these programs, and what kind of programs have been implemented? And has your union been involved in this?

Mr. WILLIAMS. Well, there have been a great many programs. I can't give you a precise figure off the top of my head, the money, but we can certainly answer that information in writing and advise you in detail about the program in place.

As Mr. Roderick has indicated, there's been some joint programs involved with the United States Steel Corp. A similar set of programs involving Bethlehem, and a good deal of work with LTV, and we have quite a major project underway in Ohio on a joint venture involving everyone. We've done a good deal of work in Illinois, in Indiana. So much has been done.

Let me hasten to add, however, that all that's been done hardly scratches the surface of the new—if there's one thing we need in this period of wrenching industrial adjustment, looked at best, or wrenching industrial deterioration as we hear—if there's one thing that we need to—is the whole question of training, and retraining. And finding employment, and reasonable use of employment for people at the other end of the process.

Frankly, in the union we're in favor of training and retraining, and all that, in any event. But clearly it's very frustrating for the participants. After their involvement in the program there isn't really any kind of employment available to them at the end of it.

So we need a much more effective economy. We need to be much more of a rebuilding industry in America. We need much more providing of employment opportunities. We need to know a great deal more about training and retraining.

We're attempting to do all we can. In settlement, in LTV, or the proposed settlement, when we counted—here today, being counted at this moment, I suppose, we'll know the results later today, we did set aside specifically in that agreement which really put some specific terms, the 1-percent set-aside, money for retraining, and we'll be pursuing those kinds of collective-bargaining arrangements through other associations this year.

Mr. SHEEHAN. Could I just add one small comment to that, and that's the fact that the Government also set aside \$10 million earmarked for displaced steelworkers, and referencing the act that you made vote on, set-aside 1 percent of net cash-flow, you're obviously aware of the fact that the industries have to have the net cash-flow.

So I would say at this point that part of the program has not been activated because they're not showing at that point the net cash-flow.

Mr. KOLTER. Thank you.

It seems that oftentimes that advances in technology generally means fewer jobs. Do you foresee any changes in the existing work rules and manning agreements, Mr. Williams?

Mr. WILLIAMS. Well, there have been enormous changes. Ever since our agreement in 1983, particularly in which our members sacrificed, reinvested in the industry, if you will, something like \$1.4 billion, concurred with all that, in the months succeeding our negotiations with local unions, generally seeking manning practices, all on the subject of local union negotiations, there have been negotiations played across—right across the industry. And there have been enormous changes in work rules, and labor practices, really almost every one of the industries in that period of time.

Mr. KOLTER. Mr. Williams, one last question.

Is your union satisfied with the rate of modernization in the industry?

Mr. WILLIAMS. Well, I think the answer is no in the sense that we would like to see modernization moving ahead more rapidly. We think within the available circumstances that the industry is certainly struggling to modernize, and given the absence of profitability, and given all of the difficulties of financing modernization, we think they're attempting to do a great deal. But we believe there's a national crisis about the steel industry. We think we can't modernize too quickly or to maintain competitiveness, and we, clearly as we've been saying publicly, would like to see more help from the Government, more help in terms of—need for steel, or foreign help in the import question, more help to the financial community to enable modernization to proceed more effectively.

Mr. KOLTER. Thank you.

Mr. BARNARD. Mr. Erdreich.

Mr. ERDREICH. Thank you, Mr. Chairman, and President Williams. Let me ask you a question. I asked the same question of Mr. Roderick because I looked at what I thought was a very comprehensive study that you all had commissioned from consultants looking at a broad range of problems in the industry, but then specifically on page 62 of that study it was a question of has the VRA program worked. And it really amazed me, or shocked me really, that your consultant concluded that as the agreements were—VRA agreements were actually initiated and put in place, that they allowed penetration up to the 24.5-percent level.

I understand the diversion problem, and it may be that that's what it's alluded to, that the agreements would never get down to 20.2 percent, or 20 percent. But if you have any more information on that, could you share it with us?

Mr. WILLIAMS. Well, it gets into a number of assumptions. You know, there isn't a vast difference between the upper limits of Mr. Roderick's estimates a little while ago, 23 percent and up, but it's not very far up to 24 percent. And they certainly—assumptions they made about what might happen with those countries not covered by the VRA's. It's assumptions that whatever, 25-percent limit, which can be excessive, or can be prevented, and assuming that the countries will take full advantage of any ways in which they could do that, then you're assuming a larger volume of semi-finished. We have a great concern of the union about semi-finished, and they came to the same conclusions that that was a very difficult area, and might well go to other lengths. It's kind of an assumption of all those things. Some doubt in their minds whether the early rush to the border and all that will really be picked up, and really be compensated for it in subsequent years, and whether some slippage will occur, and all that, and we put all those elements together. They're somewhat pessimistic obviously about getting down—

Mr. ERDREICH. I guess what bothers me from what I am hearing here today, and a lot of what we've been looking at in the Steel Caucus, is that we keep on talking about the 20- or 20.5-percent level, or we're making that target. But it looks to me that at best we're starting out with possibly a 24-percent target as to what the VRA realistically could get us to by itself with all the problems and the difficulties you mentioned.

I'd like to ask you to look down the road, which may not be the easiest thing to do, but look down to September 30, 1989, and the VRA agreements are to expire. What happens then?

Mr. WILLIAMS. Well, we think that absent some more effective ways of dealing with the problem of trade in the world generally, that we'll continue to be in very similar trouble. It's one thing to do all we can to modernize and improve the industry in the United States, and that should be done. But we're living in a world where there's enormous overcapacity for steel, and if we simply open the American market again, why, all those questions of dumping, and subsidization, and all the questions of low wages, very modern steel mills, and countries like South Korea with total employment costs of \$3 an hour, countries like Brazil with employee costs of about \$2.50, all of those things as nearly as one can tell will still be in place. Unless we deal in some more realistic way with managing the trade of the world, then I think we will face very serious problems again, and coming to grips with world trade in some realistic way is probably the single most problem that faces the future of the American economy and the nature of the world economy.

We think that the debate far too long has gone on between two extremes. Some kind of classical free trade which I don't think ever existed over on one side, and the chairman made reference to Smoot-Hawley over on the other. And neither of those extremes make any sense. We're not going to live in a world in which we don't trade. The challenge is there's some way in which this trade can be managed that preserves advantages and opportunities of America as well as every country in the world.

One can think of many pieces so long as the big market like Europe takes only 7 percent of import penetration, and complains

when we aren't willing to let it be unlimited, and not much common sense in that. So long as we face in Japan cultural difficulties, or economic difficulties, or whatever, working the system, if you will, that results in South Korea being more of a problem to us than it is for Japan when the chief import is the level of 5 or 6 percent, is not much solution to the world's problems we have. And I think we need a much more active kind of policy in the United States both in terms of our domestic needs here, in terms of preserving the building industry in the United States, and in terms of exercising world leadership to move the whole world economy forward.

I think we had a very interesting demonstration of that after years of refusing to do anything about exchange rates, and saying we really can't touch that, that's the market at work. A few months ago the President and his colleagues finally were persuaded that they needed to do something. They called a little meeting in New York one weekend, as I remember, and had a very significant result as a result of that meeting.

Now, I applaud them for the meeting, and applaud them for the results. We should have had the meeting 2 or 3 years earlier, and we need a few more meetings. And about those kinds of problems, and all related problems. I think there's a great opportunity to exercise constructive leadership which we are beginning to do.

Mr. ERDREICH. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Ridge.

Mr. RIDGE. Thank you, Mr. Chairman. Mr. Williams, I want to tell you how encouraging those last remarks are. I think the fact that we have not had a comprehensive training policy under this administration, but just generally from preceding administrations, we have failed to recognize—we now recognize the problems of international competition that goes on in a fairly helter-skelter fashion without a comprehensive policy. And I think we're also beginning to see that in addition to some problems that are real, that must be addressed, there are immense opportunities and we can get our act together not only in steel and textiles, but through the future of the entire American economy as well.

So, again, I share those thoughts with you in that precisely the same sentiments, but specifically with regard to the VRA's. I was wondering if either you or Mr. Sheehan could tell me a little bit about your compliance monitoring committee. I find it will probably be very constructive and useful tool not only for steelworkers, but possibly for Members of Congress who will be looking very closely at the continued effectiveness or ineffectiveness of the VRA's. And I was wondering if you might outline the arrangements you have with Congress, and what you hope to accomplish by it.

Mr. WILLIAMS. Jack, do you want to answer that?

Mr. SHEEHAN. Well, Mr. Congressman, what we have set up is a committee, a working committee, composed of one of the five international officers of the union, and five other elective, district directors.

Now, the committee's function will be at least twofold. One certainly is to be in contact with the Commerce Department, which is charged with the implementation of the VRA.

Now, we're interested in that contact for a number of reasons. One is to find out statistically what's happened with the coming in. We are also concerned as to questions asked earlier, whether there is a staff available at the proper level.

Are they capable of really identifying and tracking each of the imports coming in? But more than that, Mr. Ridge, another problem, which I think is the more serious one, pertains to interpretation of the agreement. I think there is some comfort in that the steel imports will be covered by licenses, and will be checked at the Customs. But should the product shipped from a VRA country be transformed into another steelmill product in a non-VRA country be uncontrolled, there is going to be a lot of interpretative decisions taking place at that level. We're going to be very concerned that the unions are part of the understanding when those problems arise, and part of the decisions that are being made with regard to that.

The second thing that obviously we're going to be concerned about, is to have eyes-on contact with the Customs department to see how they are actually implementing the law.

Now, one other phase of this program that I should relate to, is somewhat comparable I guess to the industry. The steel industry obviously has many sales personnel out in the field. They come into daily contact with loss of sales to imports. They are able to have, let's say, an anecdotal investigation or monitoring of the system.

The union will try to do the same through our members in the various plants—not only in steel local unions, but in the fabricated local unions, in order to see whether steel is coming in. The full committee will check to see whether those imports are also being monitored.

And, third, we intend to coordinate with the industry—which also has a similar committee. We have been very well received and welcomed by the Commerce Department, because all enforcement systems fall apart if there's no credibility. And I think that's what we're also involved with.

Mr. BARNARD. Thank you, Mr. Gaydos.

Mr. GAYDOS. Let me ask you then just one question and that will be—I refer to your statement——

Mr. WILLIAMS. Excuse me calling you Joe.

Mr. BARNARD. We all call him other things. [Laughter.]

Mr. GAYDOS. Mr. President, on page 14 you make mention of "Buy American." We've been struggling with that concept so long in Congress.

Recently we had a "Buy American" provision in the highway bill, and we had a heck of a time keeping it. And I notice you make a specific point in your prepared statement about "Buy American" and how important it would be under existing circumstances.

I wonder for the record if you would enlarge upon that concept. I think it would be very useful to show just how the steel industry and how the steelworkers feel.

Mr. WILLIAMS. Well, in our view it's another important piece in terms of dealing with the overall problem of the steel industry.

We mentioned at the beginning of our testimony you're really in a sense seeking an industrial policy a way that really worked for

the steel industry across the board in terms of steel usage in our— in the country. And clearly "Buy American" would help very significantly with all the public moneys that are going into the use of steel. If all that was guaranteed that it was going into American steel, that would be very helpful in terms of volume in the industry.

So, if we can persuade the American consumers that they should "Buy American," deal with this endless, very significant, indirect, import problem by having more consumers persuaded that they should really be buying American-made automobiles, and using American steel, if everybody will understand why anyone in Pittsburgh area would buy anything but American automobiles, or when they see the devastation in this community.

So we see this both in the public way, and a private way, is a very important part of it.

Part of our crisis program that we referred to earlier, these agreements being negotiated, and the program that's emerging with which Mr. Becker is heading up the work in our union and our committee in that regard, one item in that program which I might use this opportunity to announce, since we're going to be promoting a "Save American Industry and Jobs Day" on June 21, the longest day of the year, and will be seeking the cooperation of the industry, the cooperation of the National Labor Union, the cooperation of everybody in Congress who wants to help, we hope that's all of you, to help us make that day a success. And that day will have a very significant "Buy American" emphasis.

So that's another piece of trying to deal with this whole problem.

Mr. GAYDOS. We're talking about hundreds of thousands of jobs in the country, and we'd like to see that spread not only in the steel movement throughout our area but, in the textile area, et cetera.

Mr. WILLIAMS. One of the most interesting aspects, and I'll just add a quick word, about the— studies which Congressman Erdreich referred, really surprised even us, to be truthful. That study showed that as much steel, virtually as much steel being used in America as has ever been the case. There is a lessening of steel intensity product by product, but the overall use of steel is as high as has ever been the case. But when we take out of that steel the 25 percent in terms of direct imports, and the other 50 million tons that Mr. Roderick referred to in terms of indirect imports, that creates an enormous hole.

So even now without increasing our work in the infrastructure, and increasing level of economic activity generally which we believe should be done, even absent that, there is a lot of steel being used in this society if we could just get more of American steel. And that's very important to "Buy American."

Mr. GAYDOS. In closing, let me state that Secretary Baldrige appeared before the Steel Caucus about 3 weeks ago, painted somewhat of a rosy picture and predicted that by the end of the year the quota would be met. He didn't give, I think, sufficient evidence to that effect upon which to base that conclusion.

I share your feelings and believe the administration has a long way to go before they meet that quota. I conclude with you that fundamentally it isn't working as it was supposed to work.

Sharing those views with you, I hope that by continuing to work together we'll bring about an early disposition to this problem.

Thank you. We appreciate your help. From now on we'll be seeking more on a continuing basis.

Mr. BARNARD. Mr. Williams, we appreciate the testimony of the United Steelworkers in this hearing today, and I can assure you it will mean much to the success of our report, and hope that our report will have some—certainly some benefit in the Congress, as it's read by our Members, as far as future legislation which you have recommended, or other actions that we need to take.

So we appreciate you being here this morning. I'm sure that all of us—I know I do—have further questions we'd like to put before the United Steelworkers, and if we would, we'd like to do that in writing with your cooperation.

Mr. WILLIAMS. We'll be pleased to respond, and we appreciate you and Mr. Kolter and your colleagues coming to Pittsburgh for this hearing, and to provide me an opportunity to—for us and others in the community to meet with you, and we appreciate your interest in this subject.

Mr. BARNARD. Thank you very much. I assure you we're interested.

We will now have a panel of two witnesses appear before our committee, Mr. Richard P. Simmons, chief executive officer of Allegheny Ludlum Steel Corp., and Mr. David E. Todd, president of Armco Specialty Steels Division of Butler, PA.

Gentlemen, we always apologize at this period in our hearing process. It seems like we start off on time but time becomes more and more of a factor, and it seems somewhat unfair, but unfortunately that's the way the thing normally works.

Both of you have excellent testimony. I mean, in its entirety it's going to be very helpful to us in our report. Most of us have read the testimony. I would hope very much you could maybe summarize the testimony, and as we get into the questioning period, and I'll recognize Mr. Simmons first, and then Mr. Todd.

STATEMENT OF RICHARD P. SIMMONS, CHIEF EXECUTIVE OFFICER, ALLEGHENY LUDLUM STEEL CORP.

Mr. SIMMONS. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you. I will not read my testimony.

Mr. BARNARD. Without objection, the entire testimony will be in the record.

Mr. SIMMONS. We also appreciate the fact that other members of the committee here, and particularly those other Congressmen with whom we've had a long and very constructive relationship. We appreciate their prior and present support.

I'd only like to touch on a number of items today that are within the testimony and also relate to some of the questions and comments made by Mr. Roderick, Congressman Ridge, and Mr. Williams.

First, let me characterize the specialty steel business so that there is no misunderstanding the generic term—specialty steel—that has been used several times today.

As chief executive officer of Allegheny Ludlum, and also as chairman of the Specialty Steel Industry Committee, we represent companies who manufacture stainless steel products, electrical steel, and tool steel.

So while Congressman Ridge has referred to oil country goods, unless they're stainless steel, our testimony does not specifically refer to that.

In addition, while the specialty steel industry that I have defined, represents only 2 percent of the tonnage of the carbon steel industry it represents approximately 10 percent of the dollar volume. In other words, the products that we produce are sold on the average at five times the average price as carbon steel because of the elements that are contained within the very high technology products that were used to manufacture them. These elements are chromium, and nickel and molybdenum, cobalt, and other elements such as that.

Finally, Allegheny Ludlum while tiny in comparison to United States Steel, is a freestanding specialty steel company, the largest in the industry. And while we are tiny, we do have a payroll in this area alone of approximately \$200 million a year, plants in 5 States, and support of an additional 4,000 retirees together with 5,000 active employees. So that while we are small, we represent not only a vital part of the steel industry, very strategically important, but also in this particular area are very large employers, as is my colleague, Mr. Todd.

While Mr. Roderick properly points out that for carbon steel, the import trend is in the right direction, I would have to say to you that lost amongst the elephants, for us mice, the trend is in the wrong direction. As we sit here before you this morning we face the highest level of import penetration both in tons or in value of products in the history of the industry.

I'd like to take just a few minutes to touch on that history because the history for specialty steel is not the same as the carbon steel industry with regard to the VRA program, although we have now all come together in the same program.

Specialty steel won its first 201 case in 1976, and for a period of 3½ years enjoyed a period of import restraint as a result of that first victory. In 1980 those quotas expired, and the 1981 imports once again began to rise dramatically. In 1981 the specialty steel industry filed a section 301 case in which the President in his findings against seven foreign countries found that the specialty steel industry was efficient, technologically advanced, and export oriented.

Unfortunately, in a unique decision, however, he then, on our behalf, filed a section 201 case, the first time to our knowledge that a President had ever filed a section 201 case on behalf of petitioner.

We won that case as well. And the U.S. ITC recommended quotas for all of the stainless steel products. Unfortunately, the President in his final decision imposed quotas on only the lower volume products: stainless steel, bar, rod, and tool steel, and imposed additional tariffs on the high volume products, stainless steel sheet, strip and plate. That was in 1983. Having proved serious injuries in 1983, the first year of relief, imports went up 64 percent.

As a result of the carbon steel negotiations that began in 1984, it was very clear that if the carbon steel VRA's went into place, and stainless, bar, rod, and tool steel were covered by quotas, only a few stainless steel products would, in effect, be naked, stainless steel sheets, plate, and electrical steel. It was at that time that we requested, and Ambassador Brock at that time, agreed to negotiate on our behalf to include specialty steels in the now existing VRA programs that had been negotiated with 18 countries.

Now, I've taken a long time to get there, but you have to understand the background. In any case, as we sit here this morning, specialty steel imports of stainless steel sheet, strip and plate, are the highest level in history. Before we won the case, import penetration was at 10 percent on sheet, strip; 5 percent on plate. Today—for the last 3 months—it has been 24 percent on sheet, strip; and 20 percent on plate.

One might cynically say thank God we didn't lose. In any event, we do hope that there will be some relief. However, Mr. Roderick properly identified the fact that there may be need, as did Congressman Ridge, for some careful attention to what is occurring within the broad quotas, since with many of the nations that have agreed to VRA's on specialty steel, we are part of a much larger product category. And the shifting has already begun, which permits importers to shift from the lower price carbon steel to the five times higher price specialty steel.

Since 1983 the increase in imports has cost us \$100 million in profit. A \$100 million that could have gone into additional, more rapid modernization and capital investment programs.

So we have the problem of volume of imports, of shifting and we also have the problem, which was in one of your questions, of clear Customs fraud in which nations are mislabeling, we believe deliberately, the product specialties that are coming in. We also have the problem that there are certain exempted specialty steel products which are being used then as a technique to get around the controls that are already in place.

There has been an increase in the amount of Customs attention; however, as you know, for every good offense there is better defense, or vice-versa.

Finally, the volume of imports in December, January, and February from the EEC countries since the specialty steel quotas with the EEC did not go into effect until shipments starting March 1, have come in at a rate four times the agreed upon quota.

The quotas for stainless steel flat products itself was fixed at the highest historic level.

So you have a case where the first year of specialty steel quotas will see little or no relief, at least in the first half of the year because of the flood of imports that have come into this country in the first 3 months, particularly from the EEC.

The EEC countries clearly have violated the intent of the agreement, and the spirit of the agreements that were negotiated. While we appreciate the efforts that have been made by Ambassador Brock, and those other people in the Government, including the Congress, and the pressure that Congress applied to get these agreements, you have to understand that in the case of specialty

steel the relief to this point is negative relief, and the relief in the first year will be little or none.

I would just like to make two other comments.

We seriously need trade legislation. It's very clear to someone like myself who has been involved in this since the first case we filed in 1971, that we have serious flaws in our trade laws, no matter how sincere those who are in charge of the administration, attempt to administer the law.

For example, the antidumping laws, as Mr. Williams pointed out, provides no penalty for past sins. In other words, all of the penalties are prospective, so that a country can greatly increase their market share by dumping, or by subsidized shipments.

Even when found guilty, they are in no way penalized for the sharp increase in market penetration. I believe that any trade legislation should attempt to deal with that in some way.

In the case of section 201, even though it was improved slightly in the 1979 act, after 6 months of study by the U.S. ITC, and public hearings, and the U.S. ITC makes a recommendation to the President. The President is free to ignore that recommendation. I believe that Congress should address the issue of whether the President has the right to ignore the recommendation of the detailed quasi-judicial body which is making what they believe to be the fairest recommendation based on the facts presented.

At the present time, as you know, Congress may override the President's decision by majority vote. We should turn that around and say that the President must accept the ITC decision unless he gets the approval of Congress to modify it.

Finally, in the long run, it's clear to me that quota legislation, VRA's, or whatever, are simply a temporary solution to longer term trade problems that Mr. Williams and Mr. Roderick talked about.

If we put quotas on steel, what will happen in the long run is upstreaming, as is already occurring. We need a broad comprehensive trade policy that gets away from the doctrinaire arguments of free trade versus protectionism.

I think Mr. Williams put it very well when he pointed that out.

This Nation must find a way to protect efficient, competitive, technologically advanced U.S. companies from being driven out of business by less efficient, less technologically advanced, and less productive companies throughout the world only because they don't have to meet a discipline or profit, or capital formation.

Thank you very much.

[The prepared statement of Mr. Simmons follows:]

**TESTIMONY OF RICHARD P. SIMMONS
CHIEF EXECUTIVE OFFICER
ALLEGHENY LUDLUM STEEL CORPORATION
and
CHAIRMAN, SPECIALTY STEEL INDUSTRY
OF THE UNITED STATES
BEFORE THE SUBCOMMITTEE ON COMMERCE,
CONSUMER AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 4, 1986**

Mr. Chairman: I appreciate this opportunity to testify before you today on behalf of the specialty steel industry of the United States. I would like to review briefly for you what has happened to my industry since President Reagan imposed an import relief program in 1983, and bring you up-to-date on the impact of that program and the more current voluntary restraint agreements program.

Before I get into international trade matters, however, I would like to give you just a brief description of our industry. When I refer to specialty steels, I mean generally stainless steels, tool and die steels, superalloys, and electrical steels. These products are designed and produced for applications in extreme environments demanding special hardness; toughness; resistance to heat, corrosion, or abrasion; or combination of these characteristics. Specialty steels are necessary to maintain the civilian economy and a strong industrial base, and they are crucial to our national defense. There are many critical applications for specialty steels for which there is no economic, or readily available substitute material. Specialty steels are an indispensable, basic material for an industrial economy.

The domestic specialty steel industry is the world's most efficient producer of specialty steels. Our companies have invested heavily in new facilities and advanced technology -- resulting in greatly improved productivity. America's specialty steel producers are the world's leaders in technology, advanced equipment and alloy

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developments. Indeed, in 1983, the President described the U.S. specialty steel industry as "efficient, technologically advanced and export oriented."

Section 201 Import Relief Program

The background on our section 201 import relief program is quite interesting. It emanates from a 1981 section 301 unfair trade practice case that we filed alleging numerous foreign subsidies. In early 1982, the President decided not to act under section 301, but rather in a unique decision to initiate a section 201 case before the U.S. International Trade Commission. To my knowledge, this was the first time a President ever initiated a section 201 case.

The issue before the International Trade Commission was whether the domestic specialty steel industry was being "seriously injured" by increasing imports. We won the case before the ITC, and it then went to the President for his decision on what type of remedy to impose, if any. On January 19, 1983, President Reagan's decision was formally announced. It was certainly a mixed bag for our industry. On one hand, the President decided to impose quotas on certain of our products, namely stainless steel bar, stainless steel rod, and alloy tool steel, as recommended by the U.S. International Trade Commission. That was good for those sectors of our industry, which had been badly injured by imports. On the other hand, however, the President decided to impose only modest tariffs on the stainless flat-rolled products, that is, stainless steel sheet, strip and plate. In spite of the International Trade Commission's recommendation for quotas, the tariffs started at 10 percent for sheet and strip and are declining each year, ending at 4 percent in 1986. The tariffs for plate were set at 8 percent for plate, also declining to 4 percent. At the time of the decision, we predicted that the tariffs would not be effective, basically because nearly all of our foreign competitors are government owned or subsidized, and they would simply absorb the tariffs and continue to ship steel into the United States at prices which often did not even cover their production cost. How right we were !

The statistics tell the story: Imports of the products subject to quotas dropped off dramatically. Import penetration of stainless bar dropped from about 30 percent in 1982 to about 19 percent in 1985. Stainless rod import penetration declined from over 50 percent in 1982 to about 42 percent in 1985. Alloy tool steel import penetration was about 48 percent in 1982 and it has declined to about 31 percent in 1985. I hasten to add that these import penetration numbers would be even lower if the domestic markets were better.

In contrast, let's look at what has happened to the flat-rolled products in which Allegheny Ludlum specializes. Sheet and strip import penetration is now over 24 percent, compared to 10 percent when we won our section 201 case. Plate import penetration is over 20 percent, compared to only 5 percent in the year we proved serious injury. In addition, we are being devastated by startlingly low import prices, which indicate to us that continuing foreign dumping and subsidization is occurring. In a nutshell, the injury we proved in 1983 has not been remedied three years later. (See attachment.)

I should also add that we have had a multitude of problems with the section 201 program, particularly with respect to enforcement of the quotas. We have provided substantial evidence to the United States Trade Representative, the Department of Commerce, the Customs Service and Congressional committees of widespread circumvention and Customs fraud, but so far I cannot say that much has been done about it. One of our biggest problems has been that certain products were exempted from the section 201 program. As you can guess, importers and foreign producers have taken advantage of those exemptions by bringing in all kinds of material under the exempt tariff schedule categories, material which we believe often is not truly eligible for exemption.

I should also comment on another problem which is particularly close to the hearts of several stainless flat-rolled producers. That is the issue of type 409 stainless

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steel. Although the industry has long considered type 409 to be a stainless product and it is the tariff schedules have not treated it as stainless steel. As a result, type 409 is outside the scope of the section 201 import relief program. As the automobile manufacturers use more and more type 409 stainless in cars, this market is growing rapidly. Because of this product's durability and anti-corrosive characteristics, auto manufacturers are increasingly using it in automobile exhaust systems. Once again, imports are gushing through our ports, primarily from Japan, but also from numerous other countries such as France, West Germany, Italy and Korea. We fear that the same thing is happening to us on this important product as has happened before. Dumped and subsidized imports are taking market share from the domestic industry before we can do anything about it.

President's Steel Program

You will remember that in September of 1984, President Reagan announced a new program to deal with imports of carbon and alloy steel products. He announced that his Trade Representative would negotiate a series of voluntary restraint agreements, intending to reduce import penetration of foreign steel to about 18.5 percent.

We asked the Administration to include our stainless flat-rolled products in the VRA program, basically because the section 201 tariff program had simply failed. We were pleased when then-Trade Representative Ambassador Erock agreed to include our products. As of today, eighteen voluntary restraint agreements have been concluded and stainless flat-rolled products are generally covered. In a few agreements, there is a separate category for our products, but in most of the agreements, our products are just a small part of huge carbon and alloy steel categories. In those latter agreements, therefore, foreign producers have an incentive to ship our high-value products rather than the lower-value carbon steel products. I do not wish to minimize our appreciation at being included in these agreements. The Administration recognized that the sector

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201 program didn't work, and has genuinely attempted to help us through the VRA program. Nevertheless, the overall VRA program is far from achieving its objectives for the steel industry, and specialty steel remains extremely vulnerable.

Special mention should be made of the recently-concluded extension of the Arrangement with the European Community. Once again, stainless products have been included. The quota products of bar, rod and tool steel are subject to tonnage limitations, beginning March 1, 1986 and ending September 30, 1989. Unfortunately, the tonnages are much higher than we had hoped could be negotiated. In contrast to the EC's shipments of about 17,000 tons annually under the section 201 program, the EC will be able to ship about 21,000 tons each year under the Arrangement.

The stainless flat-rolled products have been assigned import penetration percentages, 3.99 percent for sheet and strip and 4.93 percent for plate. Our major problem there is that the Arrangement does not cover any exports from the EC prior to March 1, 1986. That is, anything shipped from the EC before March 1st does not require an export license and is therefore not counted under the Arrangement. What you might expect would happen, has happened. Because of the delay in the implementation date from January to March, the Europeans have crammed in every ton of stainless steel possible. The figures are devastating. In December, 1985, EC flat-rolled imports were 14,604 tons, about four times their "normal" shipment level and the quota level. January imports from the EC were 15,766 tons including Spain for the first time. In February, they hit us hard again with 15,121 tons. The result is that EC import penetration will not be anywhere near the 3.99 percent on sheet and strip and 4.93 percent on plate which was negotiated. Import penetration for January and February will be more like 16 percent for sheet and strip, and 18 percent for plate -- all because of the delay in implementing the specialty steel provisions of the EC Arrangement and the EC's determination to ship every possible ton before the Arrangement became effective. So much for the good will of our trading partners.

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Recommendations

While I wanted to lay out this background for you, I have been involved in this international trade business for too many years not to be a realist. I will not cry over spilled milk, but instead will look forward to what can be done now.

It seems to me that two things are paramount:

1. First, it is absolutely obvious to anyone who looks at the situation that more effective enforcement of the steel program by Customs is crucial. There has been a great deal of congressional testimony on this issue, and I don't think anyone disagrees that the U.S. government has simply got to get a better handle on the circumvention, transshipments, Customs fraud and downright cheating that is occurring. That means more and better trained Customs officials, and a genuine dedication on the part of the Administration to deal with this problem.

2. Secondly, our industry has come to the conclusion that steel import legislation is also essential. Our section 201 program has not achieved its objectives. The patchwork of voluntary restraint agreements is a step in the right direction, but it is not accomplishing its objectives. The specialty steel industry and the carbon steel industry have both won section 201 cases at the ITC. We have met the toughest injury standard in the world. We continue to be injured. The President's programs are helpful, but they are just not enough. We believe that legislation is needed to supplement the efforts of the Administration. That legislation should do several things: It should establish market import penetration percentages by law; it should tighten up the Customs laws by preventing circumvention, transshipments and fraud. It should cover those countries currently outside the VRA program. It should strengthen existing fair and unfair trade laws to provide real relief when violations are proven. It should also provide punishment for those found guilty. The punishment should be loss of unfairly captured market share. Recognizing the real danger of "upstreaming", I believe that ultimately we must consider import surcharges if we are to maintain a manufacturing base.

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Mr. Chairman, on behalf of Allegheny Ludlum Steel Corporation and the specialty steel industry, I deeply appreciate your time and interest.

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Mr. BARNARD. Mr. Todd. Mr. Todd is the president of Armco Specialty Steels Division of Butler, PA. We welcome you to the panel today, Mr. Todd.

STATEMENT OF DAVID E. TODD, CORPORATE VICE PRESIDENT, ARMCO, INC., AND PRESIDENT, ARMCO'S SPECIALTY STEELS DIVISION, BUTLER, PA

Mr. TODD. Thank you, Mr. Chairman. I will leave the shortened version of my presentation. I'm not quite as eloquent as Mr. Simmons, not having worked in this arena quite as long as he has, so let me read a shortened version of my presentation. As you said, I am corporate vice president of Armco, Inc., and president of Armco's Specialty Steels Division with headquarters in Butler, PA.

On behalf of the 4,000 employees of the Specialty Steels Division working in plants in Pennsylvania, Ohio, Maryland, and Florida, I thank you for the opportunity to appear before you. Others have given, or will give testimony today concerning carbon, and stainless sectors of our industry, so I will confine my remarks to electrical steel.

Electrical steel is used by the electric power generation and distribution equipment, and electric motor manufacturers. Armco is a major producer of this specialty steel grade. Our material is sold throughout the world.

At our main electrical steel facility in Butler, PA, Mr. Kolter's district, we have advanced, state-of-the-art production equipment including electric furnaces, the world's largest AOD vessel, and 100 percent continuous casting, which obviously is state of the art, along with the necessary finishing equipment.

Our board of directors has recently approved a \$55 million capital expenditure in a new cold rolling facility at our Butler plant. Even with our modern technology and equipment, plus our dedicated and skilled workforce, over the past 5 years we've experienced a loss in market share and profitability in the electrical steel markets as directly related to imports, many of which are from state-owned, subsidized, foreign producers.

We've attached details of the surge in imports in recent years.

But to illustrate the magnitude of the increase of imports of electrical steel in the U.S. market, in 1981 some 24,000 tons, or 3.9-percent market share; in 1985 145,000 tons, or 26.7-percent market share. Although we have labored hard to minimize the impact on employment in our electrical steel-producing facilities, the loss in market share, and the price suppression caused by the predatory pricing policies of many of the foreign producers has contributed heavily to reduced division and corporate profits, and reduced profits, of course, restrict Armco's ability to modernize its steel operations as Congress intended in the Steel Import Stabilization Act.

Let me skip ahead. A couple points I would like to make is first because of a loophole in the import tariff schedules, electrical steel has been entering the U.S. market without being counted as such by the Department of Commerce.

In 1985, 43 percent of Japanese electrical imports fell into this category and accounted for a full 5 percent of U.S. electrical steel

consumption, yet were not being counted against the Japanese VRA limit.

Thanks to the efforts of Congressman Kolter and Congressman Pease of Ohio, and negotiators in the Commerce Department, this loophole has been closed to the Japanese as of January 1, 1986.

Another problem has been one of shifting which has been referred to many times here today, within broad product categories. Brazil went from 279 tons of electrical steel imports in 1983, to 3,441 tons in 1985, a clear shift to a higher value of product within a broad category of other steel sheet.

Another major problem for our business has been the incomplete nature of product coverage and the effective date of implementation of several agreements with the European Community. The statistics show that the Europeans have been a major source of the increased imports in spite of agreements dating back to 1982. Although we do hope to see positive results in the controls this year, we continue to be frustrated by the inability to recover past agreement transgressions and the unending delays in implementing the agreements.

Fourth, and finally, Mr. Chairman, we are concerned about the remaining countries producing electrical steels that do not have any formal agreement with the United States, notably Canada and Sweden, again, as referred to earlier.

Canada has historically taken around 2 percent of the U.S. market for electrical steel, and we would hope that they would not take advantage of the current situation.

Sweden, on the other hand, shows a remarkable 739-percent increase of electrical steel imports in January of this year over the same period of last year.

The office of the U.S. Trade Representative is entering discussions with the Swedish Government, and we hope these talks will result in control of their surging electrical imports as well as those of other specialty steel imports.

Mr. Chairman, I would like to extend my appreciation to the office of the USTR for its efforts to implement the Steel Import Stabilization Act. Although the results expected by the Congress and sorely needed by the industry are yet to be fully achieved, we recognize that the small dedicated staff at USTR has been diligently working under less than ideal conditions to reduce unfair trading practices in the U.S. steel markets, and enhance free and fair international trade.

In conclusion, I believe that most of the elements necessary to effectively carry out the Steel Import Stabilization Act are now in place, and efforts to conclude agreements with some countries not now covered by the VRA's are underway. I hope and expect that the administration, USTR, Department of Commerce, and the U.S. Customs Service, will be diligent in carrying out this program, and that the Congress will provide the necessary oversight and funding, particularly with respect to the Customs Service. It would be foolish indeed if the U.S. Government were to render impotent the laboriously negotiated voluntary restraint program by gutting the capacity of the hard-pressed Customs Service to implement it.

Your presence here today confirms your understanding of the need to maintain a vital steel industry as a key element in the

economy and defense of this Nation. Limiting unfair trade practices and subsidized steel imports, along with capital formation, tax reform, which encourages investment, and world class competitiveness, are the challenges before the men and women who make up the U.S. steel industry today, and I appreciate your bringing the needed focus of attention to these problems. And I'll be glad to respond to any questions that you have. Thank you.

[The prepared statement of Mr. Todd follows:]

Testimony of
David E. Todd
Corporate Vice President of Armco Inc.
and President of Armco's Specialty Steels Division
before the
Commerce, Consumer and Monetary Affairs
Subcommittee of the
Committee on Government Operations
of the
House of Representatives
Congress of the United States

April 4, 1986
Allegheny County Court House
Pittsburgh, Pennsylvania

Mr. Chairman, I am David Todd, Corporate Vice-President of Armco Inc. and President of Armco's Specialty Steels Division with headquarters in Butler, Pennsylvania. On behalf of the 4,000 employees of the Specialty Steels Division working in plants in Pennsylvania, Ohio, Maryland and Florida, I thank you for the opportunity to appear before you and your colleagues today to review the state of our industry, the impact of imports, and the effectiveness of the Steel Import Stabilization Act that was enacted by the Congress in the 1984 Trade and Tariff Act.

Others have given or will give testimony today concerning the carbon and stainless sectors of our industry so I will confine my remarks to electrical steel. Electrical steels are used by the electric power generation and distribution equipment and electric motor manufacturers. Armco is a major producer of this specialty steel grade, and our material is sold throughout the world. In fact, based on percentage of production, Armco is America's largest exporter of steel products. At our main electrical steel facility in Butler, Pennsylvania (Mr. Kolter's district), we have advanced, state-of-the-art production equipment including electric furnaces, the world's largest AOD vessel and 100% continuous casting along with the necessary finishing equipment. Our Board of Directors has recently approved a \$55-million investment in a new cold rolling mill that will further enhance our ability to supply a world class, competitive product.

Even with our modern technology and equipment plus our dedicated and skilled work force, over the past five years we have experienced a loss of market share and profitability in the electrical steel markets that is directly related to imports, many of which are from state-owned, subsidized foreign producers. Attachment A to my testimony gives the details of the surge in imports from the major foreign electrical steel producers since 1981 along with the resulting percentage import penetration.

To illustrate the magnitude of the increase of imports of electrical steel in the U.S. markets - in 1981, some 24,000 tons for 3.9% market share and in 1985, 145,000 tons or 26.7% market share. Although we have labored hard to minimize the impact on employment in our electrical steel producing facilities, the loss of market and price suppression caused by the predatory pricing policies of many of the foreign producers have contributed heavily to reduced division and corporate profits. And reduced profits, of course, restrict Armco's ability to modernize its steel operations as Congress intended in the Steel Import Stabilization Act.

Even though the Steel Import Stabilization Act has been in effect since October of 1984, the numbers in Attachment A show clearly that it has not yet provided the necessary relief against imports to the electrical steel sector. There are a number of reasons why the program has been slow to control the flood of electrical steel imports:

- 1) Because of a loophole in the import tariff schedules, electrical steels have been entering the U.S. market without being counted as such by the Department of Commerce. In 1985, 43% of Japanese electrical steel imports fell into this category and accounted for a full 5% of U.S. electrical steel consumption, yet were not being counted against the Japanese VRA limit. Thanks to the efforts of Mr. Kolter and Congressman Pease of Ohio, and the negotiators in the Commerce Department, this loophole has been closed to the Japanese as of January 1, 1986, with the renegotiation of their VRA. Also thanks to Mr. Kolter and his staff, a bill, HR 4047, has been introduced to legislatively close this anomaly in the tariff schedules.
- 2) Another problem has been one of shifting within broad product categories. Brazil went from 279 tons of electrical steel imports in 1983 to 3,441 tons in 1985, a clear shift to a higher value product within the broad category of "other" steel sheet. The Brazilian VRA contained an anti-shift clause and the Department of Commerce has, again, negotiated a satisfactory resolution on this shifting issue and is to be congratulated for the firm manner in which they have pursued resolution of this problem.

- 3) Another major problem for our business has been the incomplete nature of product coverage and the effective date of implementation of several agreements with the European Community. The statistics show that the Europeans have been a major source of the increased imports in spite of agreements dating back to 1982. Although we hope to see positive results from the controls this year, we continue to be frustrated by the inability to recover past agreement transgressions and the unending delays in implementing the agreements.
- 4) And finally, Mr. Chairman, we are concerned about the remaining countries producing electrical steels that do not have any formal agreement with the U.S., notably Canada and Sweden. Canada has historically taken around 2% of the U.S. market, and we would hope that they not take advantage of the current situation when we need to bring stability to this market so that we may fulfill the mandate of Congress to modernize. Sweden, on the other hand, shows a remarkable 739% increase of electrical steel imports in January of this year over the same period last year.

The Office of the United States Trade Representative is entering discussions with the Swedish government, and we hope these talks will result in control of their surging electrical imports as well as those of other specialty steel imports. At this point

Mr. Chairman, I would like to extend my appreciation to the office of the USTR for its efforts to implement the Steel Import Stabilization Act. Although the results expected by the Congress and sorely needed by the industry are yet to be fully achieved, we recognize that the small, dedicated staff of USTR has been diligently working under less than ideal conditions to reduce unfair trading practices in the U.S. steel markets and enhance free and fair international trade.

In conclusion, Mr. Chairman, I believe that most of the elements necessary to effectively carry out the Steel Import Stabilization Act are now in place and that efforts to conclude agreements with some countries not yet covered by the VRA's are under way. I hope and expect that the Administration, USTR, Department of Commerce and the U.S. Customs Service will be diligent in carrying out this program and that the Congress will provide the necessary oversight and funding, particularly with respect to the Customs Service. It would be foolish indeed if the U.S. government were to render impotent the laboriously negotiated voluntary restraint program by gutting the capacity of the hard-pressed Customs Service to implement it.

Your presence here today confirms your understanding of the need to maintain a viable steel industry as a key element in the economy and defense of this nation. Limiting unfair trade practices and subsidized foreign steel imports, along with capital

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formation, tax reform which encourages investment and world class competitiveness are the challenges before the men and women who make up the U.S. steel industry today; and I appreciate your bringing the needed focus of attention to these problems. I would be happy to respond to any questions you or your colleagues might have at this time. Thank you.

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Attachment A

ELECTRICAL STEEL IMPORTS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1985</u> <u>% I.P.</u>
<u>Japan</u> - Recorded	7,863	12,635	17,095	29,426	34,741	
* - Loophole	<u>80</u>	<u>386</u>	<u>2,503</u>	<u>16,365</u>	<u>26,681</u>	
Sub-total	7,943	13,021	19,598	45,791	61,422	11.28
<u>E.C.</u>						
Germany	2,364	5,488	7,641	19,644	29,883	
France	219	0	4	706	2,204	
Italy	2,218	5,081	8,453	18,208	19,810	
U.K.	0	181	25	2,568	7,703	
Benelux	<u>105</u>	<u>41</u>	<u>573</u>	<u>236</u>	<u>2,181</u>	
Sub-total	4,906	10,791	16,696	41,362	61,781	11.35
<u>Canada</u>	9,660	13,780	10,520	11,136	11,378	2.09
<u>Sweden</u>	737	1,303	1,928	6,204	7,072	1.30
<u>Brazil</u>	0	47	279	1,130	3,441	0.63
<u>Korea</u>	237	0	19	51	278	-
<u>Other</u>	<u>143</u>	<u>0</u>	<u>59</u>	<u>16</u>	<u>144</u>	-
<u>Total Imports</u>	23,626	38,942	49,099	105,690	145,516	
Apparent Domestic Supply (A.D.S.)	605,020	470,907	496,694	583,225	544,517	
% Import Penetration	3.90	8.27	9.88	13.12	26.72	

* TSUS 608.3820 Alloy strip not over 0.010" thick.

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Mr. BARNARD. Thank you very much, Mr. Todd. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman.

I'd like to address some of my questions to both Mr. Simmons and Mr. Todd.

What kind of specialty steel industry do each of you envision at the conclusion of the President's steel program?

Mr. SIMMONS. Congressman Kolter, that requires me to presume, make certain assumptions, with regard to the efficiency of the program. We've already talked about the problems of shifting. But if I can make the assumption that the program works in the sense of the intent to limit the importation of the stainless steel sheet strip, plate, rod, bar, and full steel to about 155,000 tons a year, and then the electrical steel quotas as well fall into place, our industry will be generally in pretty good shape, unlike the carbon steel industry, particularly the stainless steel industry, has been growing. In fact, the market for stainless steel sheet strip was a new record both in 1984 and 1985. I hasten to say, part of it taken by imports. But the fact that unlike carbon steel, stainless steel has been growing.

So that we would expect that if the program is effective, that our companies will continue to invest, continue to modernize, continue to become more efficient; however, we all are very concerned about what would happen on October 1, 1989, if there is no solution to the barter trade issue.

I am particularly concerned, since my company does nothing else but make specialty steel—we are a freestanding specialty steel with no other interests—we are naked on October 1, 1989, in the absence of the Congress and the President taking aggressive action in the trade area.

Mr. TODD. Congressman, I guess my response would be to try to look down the road also at the long term. We're criticized many times in the steel industry, I think, for taking the short-term view. Maybe in the past that has happened. We and you have to look beyond 1989, what's going to happen on this temporary mandate as we move. I think that's the challenge that we all face, and we look to you people for support in that area.

Mr. KOLTER. Mr. Todd, you've provided an example of an anomaly in the U.S. tariff schedule regarding silicon electrical steel.

Should Congress direct the Commerce Department, the Customs Service, and the International Trade Commission, to work with the AISI and the union to discover other unintended provisions and correct them before they are exploited by our trading partners?

Mr. TODD. Well, I certainly would. Also the specialty steel industry has their own trade group, and we're working hard on that. Mr. Simmons is chairman of that group.

Certainly anybody that can uncover an irregularity, should bring it forward, and let's investigate it. Let's find out if it's real, then we can do something about it.

Mr. SIMMONS. But may I add in my testimony we referred to another anomaly, the most rapidly growing grade of stainless steel used in the exhaust systems of automobiles. Unfortunately, because of our tariff definitions it's not classified as stainless steel, even though it clearly is. This year that market will be as much as 200,000 tons, and yet unfortunately it is not classified as a stainless steel, and will not be until 1987 under the next tariff harmoniza-

tion that occurs. But when it is, it will not be included in the quota. The quota will be increased so that whatever has been shipped in in prior periods will be added to the quota. These are kinds of anomalies and distortions, as well as the electrical steel distortions we're greatly concerned about.

Mr. KOLTER. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Erdreich.

Mr. ERDREICH. Thank you, Mr. Chairman. I must say that your testimony is just aptly compelling, and I think it gives another clear example of why the patchwork, administrative, ad hoc approach is just without any rationale and cannot produce results that we'd all like to see.

Mr. Chairman, if we had the means in this country to provide unlimited authority maybe to one person to carry out the trade laws and invoke our policies, I would maybe nominate Mr. Simmons to take that over and maybe we'd get something done real rapidly with Mr. Williams and Mr. Todd, and a few others.

I can see that the inability to me to go this administrative route is going to continually frustrate all of us, and I would just like to thank both of you for the testimony that again tells me that we need a comprehensive trade reform act that deals with the problem, and really stop trying to just micromanage it which will never successfully do what we need to be done.

I really have no questions, Mr. Chairman. Thank you for the time.

Mr. BARNARD. Mr. Simmons, who are the primary purchasers of specialty steel?

Mr. SIMMONS. The specialty steel industry provides materials to a broad range of industries, but let me tick them off.

In the strategic area, the Defense Department.

In the power generation industry, the automobile industry, the aircraft industry.

But then the more mundane things, if you stand in your kitchen there is roughly a hundred pounds of stainless steel in the kitchen consisting of many different grades and varieties, everything from the electric elements on your stove, to the pots and pans that your wife uses.

Mr. BARNARD. Now, the imports that are coming into the country, are they underselling your cost?

Mr. SIMMONS. Oh, absolutely. We have already proved dumping and subsidized selling in all of the specialty steel products over a period of years, and what occurred in the last 2 years was that, first of all, most of our competition is government owned. Mr. Roderrick has already indicated the extent of the subsidies that foreign countries have given to their steel industry. These same companies produce the specialty steel products.

Mr. BARNARD. Can you track imports to some of the defense contractors?

Mr. SIMMONS. Oh, yes. Oh, yes. In fact, even though we do have a Specialty Metal Buying American Act, the Defense Department has the usual ability to get around that act, both with regard to offsets with the other native countries, as well as when they determine it's in the national interest they can acquire foreign specialty steel; yes.

Mr. TODD. We also face the same problem, as was touched on earlier, downstream transformers, motors, automobiles. Those are the hidden kinds of steel that are coming into this country that never show up in these figures, and that was mentioned earlier, and certainly a big, big growing threat in the future, as we already know.

Mr. KOLTER. An area of embarrassment, I was having lunch with other Congressmen, and Dick Simmons, and some other business people, when Dick pointed out the silverware we were using in the Capitol Building was made overseas. A real embarrassment. [Laughter.]

Mr. SIMMONS. I hope, Congressman, you're trying to deal with it.

Mr. KOLTER. Absolutely.

Mr. RIDGE. We all need to start eating with our fingers. [Laughter.]

Mr. BARNARD. If you had fried chicken you could do that.

Mr. RIDGE. Mr. Simmons, I do have a couple questions for you and Mr. Todd. I had circled your testimony. When you won your section 201 case you had import penetration at 10, and now it's at 24. When you won, steel plate import penetration was 5 percent, and now it's 20. It reminded me of the story of the patient who went to the doctor and he said "I've got some good news and bad news." And the doctor told his patient—let me make sure I get this right. I've got a good audience here. He said that "The good news is you have 24 hours to live." He said, "My God, that's the good news? What could possibly be the bad news?" The doctor said "I was supposed to call you yesterday."

And we see that some can pack that way on specialty steel. I'm glad that you both addressed the concern that I mentioned in my initial comments about there being when we take a look at aggregates, and we take a look at the steel industry generally, as even steel industry executives some time look at it, and certainly as the administration looks at it; there are some sacrificial lambs that appear to be out there, and it's pipe and tube, it's specialty steel companies, and the like.

I was curious if either one of you had some specific recommendations. You mentioned antidumping provisions, but nothing applies retroactively. They don't pay a price. You just tell them they can't do it anymore.

You mentioned, Mr. Todd, shifting. The one agreement that you referred to in your testimony, worked out an agreement but they didn't pay any penalty. I mean, they do this all the time, and if they shift from this product they don't pay a penalty. Then they move to those resources, and normally into higher value added, and shift again.

Do you have any specific legislative proposal? What kind of penalty do you think would be most effective if applied to those situations? Have you given that any thought?

Mr. SIMMONS. I have. My recommendation would be to change the antidumping and countervailing duty laws so that not only would you impose the additional duties prospectively, but you go back a 3-year period and impose a quota at the period in time prior to the time dumping occurred, or a subsidized sale occurred, so that you would in effect roll back to the earlier period rather than allowing them to lock into the higher period.

With regard to the upstreaming problem, it doesn't look more—a complex problem, as you well know. The president of Motorola, Robert Gallo, has been an advocate of an import surcharge on all products. When you're looking at \$135 billion trade deficit, I believe that it's time for this country to consider that as part of the overall trade legislation.

Mr. TODD. I guess my only comment would be that we not only don't penalize past sins, we reward them because they are used as a new basis.

Mr. RIDGE. That leads right into the next question.

You've got an increase of market share, historically high levels, doing it through these—circumventing the administrative relief that we claim that we want to give you. Can the specialty steel industry in the future given the historically high level of penetration we experience to this date, and we might reasonably anticipate even in the future, can you maintain—is there enough demand for you to maintain existing productive capacity in employment in the future? I mean, is it rosy for you if we don't roll them back?

Mr. SIMMONS. Well, one point that distinguishes most of the specialty steel products, not necessarily electrical steel, but most of the stainless steel products, is that they have been growing as compared to carbon steel. So that some of the loss in employment is made up as we do get some additional volume, but you touch on a very important point, and that is that as we lose our markets to foreign imports, and on the other hand, that is, we continue to increase our productivity and efficiency through the investment with people if they are management, we are displacing workers that if we could retain the growth in our own market, we could put back the work.

And I did leave you with a statistic that we use in-house. A laid off worker costs us approximately \$5 an hour when he's not working. If we can call him back to work even though it costs us \$17 an hour, but as long as we have hundreds, and in some cases throughout the industry, thousands of workers laid off, those who are working must in effect pay the fringe benefits of those that are not. That's how we get up to the \$26 an hour that has recently been in the press.

The point is that if we could keep the growth in our own specialty steel market, in answer to your specific question, all Allegheny Ludlum's workers would be back at work. Our cost would go down, and we would not have workers displaced and communities destroyed.

Mr. RIDGE. Thank you, Mr. Simmons.

Mr. BARNARD. Mr. Gaydos

Mr. GAYDOS. I want to thank you, Mr. Simmons, for the numerous appearances before the Steel Caucus. You and Mr. Todd were most cooperative.

As you've been before us on so many numerous occasions, sometimes I wonder as to the extent of your patience.

Let me ask you one question: Is the specialty steel industry today and can we still claim that it's up-to-date, modernized, productively equal to any foreign producer? The Office of Technology Assistance has studied our industry and has found us to be technologically

competitive and the President has said we are technologically advanced.

Mr. SIMMONS. There is not doubt, and attached to my testimony is the fact that three Japanese competitors all lost money in the 12 months ending September 30. The two of us sitting here can say to you that we are profitable and have been.

Mr. TODD. I think we need to hasten to add that we can't stand still. I don't know what the saying is, but somebody is gaining on you. So we may be there today, but let's make sure we have to continue to modernize and put those profits back in there.

So I agree 100 percent with what Dick says, but the danger again is the long-term view. We just can't stand still.

Mr. GAYDOS. Is it true that the situation was arrived at with the assistance of Government programs and some Government intervention and some limitations on imports? Did that help during the last 10 years?

Mr. SIMMONS. Congressman Gaydos, I know you're referring to the restraint program that was in effect June 14, 1976, to February 14, 1980. That program provided a tremendous period when the specialty steel industry invested heavily in new technology. At that time the decarbonization process, continuous casting, as well as a myriad of programs, and once again, the USTR studies clearly pointed out that the specialty steel industry during that period re-invested back into its business at a much higher rate than they had prior to that time.

That restraint program was most important. Unfortunately, ever since the expiration of that program the level of imports both in tons and the market penetration has been increased.

Mr. GAYDOS. So if we go back we can say then that a reasonable Federal program, properly enforced, does engender capitalization, which, in turn, is used to modernize and help us remain competitive internationally.

Mr. SIMMONS. That's right. In fact, at the completion of that program the Department of Labor made a study of the effect of that 3-year-and-8-month restraint program, and not only did they confirm that we had, in fact, readdressed it, but in addition, they pointed out the prices went up at a lower rate during the period of restraint contrary to what some free traders might suggest. Then they had an inferior part of that. The reason was that the specialty steel industry had a much higher volume, assured volume, and, therefore, the overhead was spread over more times.

Mr. GAYDOS. Is this the logical conclusion then that based upon those premises any new program should include some type of reasonable restraint as far as imports are concerned, and utilizing our experience in the past, we should be able to come up with some kind of an acceptable program within the international spirit of trading and within the existing international tariff agreements.

Mr. SIMMONS. We would agree.

Mr. GAYDOS. That would be a reasonable conclusion?

Mr. SIMMONS. Yes.

Mr. GAYDOS. I want to conclude by thanking you so much for all the technical information made available to us in Washington. I know this committee and the Government Operations Committee

share in it. We in the Steel Caucus share in it. And to see that type of cooperation from private enterprise is most encouraging.

I thank you. Thank you, Mr. Chairman.

Mr. BARNARD. Thank you, Joe.

Mr. Todd, Mr. Simmons, we indeed appreciate your testimony and your valuable time to be with us today. Your testimony has been excellent. It certainly will mean much to our report. And I presume there will be other questions that some of the members of the panel would like to pose to you, so we would appreciate your cooperation in that regard.

Thank you again for coming.

Mr. SIMMONS. Thank you, Mr. Chairman.

Mr. TODD. Thank you.

Mr. BARNARD. Our next panel this afternoon will include Mr. Raymond C. Angell, who is vice president of sales, tubular products division of the Babcock & Wilcox Co., located at Beaver Falls, PA; and Mr. Paul Darling, who is chairman of the Cold Finished Steel Bar Institute. Gentlemen, if you would take your places at the podium. Mr. Angell, would you like to identify your associate who is with you this morning?

Mr. ANGELL. Mr. Chairman, I have Ken Walker with me, who handles our trade relations at Babcock & Wilcox.

Mr. BARNARD. Welcome, Mr. Walker. And Mr. Darling, would you like to identify your associate?

Mr. DARLING. Mr. Chairman, my associate is Murray Belman, who is counsel for the Cold Finished Steel Bar Institute.

Mr. BARNARD. We welcome you as well. First of all, I want to express my appreciation for your being here, but likewise for the patience that you have shown. This is the way it works. Seems like in a hearing like this that those who have been listening so attentively all morning get a little bit fatigued in the process, but I assure you that we welcome your testimony.

We'll begin our testimony with this panel with Mr. Angell. I'll say again that our time is somewhat limited. If you could—if it's possible to abbreviate your testimony, it would be appreciated, and without objection, your full testimony will be included in the record.

Mr. Angell, we'll hear from you first.

STATEMENT OF RAYMOND C. ANGELL, VICE PRESIDENT AND GENERAL SALES MANAGER, TUBULAR PRODUCTS DIVISION, THE BABCOCK & WILCOX CO., BEAVER FALLS, PA, ACCOMPANIED BY KEN WALKER, HEAD OF TRADE RELATIONS

Mr. ANGELL. Thank you, Mr. Chairman. I will abbreviate my comments.

I'd like to begin my statement by briefly describing our company which is somewhat different than the companies that you've heard from this morning. The tubular products division of the Babcock & Wilcox Co. is the largest producer of specialty steel in the United States, and possibly the world, with manufacturing facilities located in Alliance, OH, Ambridge, PA, Beaver Falls, PA, and Bryan, TX. We produce welded and seamless mechanical and pressure tubing, seamless oil-country tubular goods, and hot rolled bars.

Up until the middle of last year we produced our specialty tubing in carbon, alloy, heat resisting, and stainless grades of steel. However, due to the substantial financial losses brought about by a combination of declining market demand and continued high levels of import penetration, in some cases as high as 70 percent, it became necessary to shut down both our stainless steel melting and stainless tubemaking facilities. In addition to the four grades of steel I mentioned, our company also produced high-alloy, nickel-based nuclear tubing for the Navy's Trident submarine program and the power-generation industry. Since the steel used to produce our nuclear tubing was produced on the same steel-melting facilities used to produce our stainless grade of steel, we find we must now locate an outside source for the tube hollows.

Looking to the domestic market, we see that market demand for mechanical tubing, after reaching a record peak of 1.6 million tons in 1973, has declined to a level of only 940,000 tons in 1985. Pressure tubing reached a peak of market demand of 400,000 tons in 1975, and has declined drastically for a level of only 131,000 tons in 1985. Oil-country tubular goods market demand reached an inflated peak of 4.2 million tons in 1981, and has been declining ever since to 1.3 million tons in 1985. The market demand I speak of for all three products has been adversely affected not only by a substantial increase in imports, both direct and indirect, in the form of finished components, but also by a lowering of overall demand due to downsizing and to a much lesser extent to substitute materials. The impact on shipments, employment, and earnings at the tubular products division has been devastating, and we know that most other domestic specialty tubing producers are likewise sharing in these same problems.

More specifically, peak employment at our division was reached in 1981 when 7,200 hourly and salary employees helped to produce our specialty tubing. In February of this year, just 5 years later, employment of hourly and salary workers at our division totaled only 2,300.

In no way do we wish to convey to you the impressions that our company or the specialty tubing industry in general has been idly sitting by watching our markets disappear. During the past decade the tubular products division of Babcock & Wilcox has either committed or spent nearly \$300 million on new steel and tubing facilities. Our latest major expenditure being \$80 million for a new state-of-the-art continuous caster, coupled with an ultra-high-powered electric furnace and a ladle refining system. This facility began operations in the spring of 1984. Currently, \$28 million are being spent at the Alliance, OH, plant to install a new welded tubing stretch reducing mill. Thus, along with trimming costs, we have and are doing everything possible to keep technically competitive with any specialty tubemaker in the world.

I think we could move on now, Mr. Chairman, to some of the problems we see as far as the imports are concerned and some of the recommendations that we have; 17 months or 28 percent of the program's allotted 60 months have already passed without showing solid evidence that the program is going to reverse the flood of specialty tubing imports.

Numerous individual steel products have no separate product quotas; only 2 of the 27 countries that have entered into voluntary trade agreements with the United States have agreed to individual quotas for mechanical and pressure tubing. This increases the incentive to shift from lower valued steel products to higher valued steel products such as mechanical and pressure tubing. Not all countries that export significant amounts of mechanical and pressure tubing to the United States have agreed to voluntary trade agreements, such as Canada and Sweden. The political and economic ramifications associated with enforcement of the various voluntary trade agreements by the Commerce Department, and here I have a reference specifically to the numerous negotiating sessions involving the United States and the European Economic Community, relative to importation of semifinished steel and the various threats of retaliation against certain U.S. exports.

These are only some of the more important problems inherent in the President's program, and I'm sure that other steel industry representatives, as you've heard this morning, have related to them. We should be looking at transshipments, that is exports to the United States from a quota country to a third country that has no trade agreement with the United States. And the second problem deals with circumvention of the quota system by establishing finishing facilities in countries such as Panama where steel from a quota country can be processed and then shipped quota free and duty free into the United States marketplace. If this is permitted to go unchecked, transshipments and circumvention can lead to the significant nullification of the value to the domestic steel industry of the voluntary import quotas.

And just briefly, Mr. Chairman, in conclusion, some of the recommendations which we believe are necessary and which we believe will strengthen the President's comprehensive steel import program. Congress should make certain that the Commerce Department strictly enforces all agreed to steel quotas and severely deals with any violations.

Congress should encourage the U.S. Trade Representative to arrange voluntary trade agreements with all major steel exporting countries such as Canada, Sweden, Argentina, and Taiwan. We need to close any and all loopholes.

Congress should see to it that Commerce strictly enforces the provisions in the trade agreement which prohibits product mix shifting. We must preclude foreign producers from shipping into the U.S. marketplace increased quantities of higher valued-added products.

Congress and the administration should implement effective measures to prevent circumvention of the program through diversions to nonquota countries where steel products destined for the U.S. marketplace are finished.

Congress should accelerate efforts directed at gathering usable data on the volume of indirect imports of steel-containing products; that is, autos, farm machinery, construction machinery, et cetera.

Congress should encourage both the Commerce Department and the International Trade Commission to self-initiate trade cases when and where the obvious intent is to abrogate the objectives of the President's program.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Angell follows:]

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STATEMENT OF

RAYMOND C. ANGELL

TUBULAR PRODUCTS DIVISION

THE BABCOCK & WILCOX COMPANY

BEFORE THE

COMMERCE, CONSUMER AND MONETARY

AFFAIRS SUBCOMMITTEE

OF THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT OPERATIONS

APRIL 4, 1986

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STATEMENT

Mr. Chairman, members of the Committee, I am Raymond C. Angell, Vice President and General Sales Manager of the Tubular Products Division of The Babcock & Wilcox Company. I am pleased to be here today and to have the opportunity to represent not only my Company but also the specialty tubing segment of the U.S. steel industry.

I would like to begin my statement by briefly describing our Company and the products we manufacture and sell to the domestic market. The Tubular Products Division of The Babcock & Wilcox Company is the largest producer of specialty tubing in the United States and possibly the world, with manufacturing facilities located in Alliance, Ohio; Ambridge, Pennsylvania; Beaver Falls, Pennsylvania; and Bryan, Texas. We produce welded and seamless mechanical and pressure tubing, seamless oil country tubular goods and hot rolled bars.

Up until the middle of last year, we produced our specialty tubing in carbon, alloy, heat resisting and stainless grades of steel in a broad size range of 1/2" OD through 9-3/4" OD. However, due to sustained financial losses brought about by a combination of declining market demand and continued high levels of import penetration (in the 60 to 70% range), it became necessary to shut down both our stainless steel melting and stainless tubemaking facilities. In addition to the four grades of steel I just mentioned, our Company also produces high-alloy, nickel-based nuclear tubing for the Navy's Trident submarine program and the power generation industry. Since the steel used to produce our nuclear tubing was produced on the same

steel melting facilities used to produce our stainless grade of steel, we find we must now locate an outside source for the tube hollows.

Our specialty tubing products are used as a vital component in a myriad of products. The tubing we and the industry sell touches everyone of us in our daily lives -- without it the world would literally come to a standstill. Specialty tubing is used in electric power generation, oil and gas exploration, refining and processing, chemical and food processing, textile equipment, air, rail and automotive transportation, farm machinery, construction machinery and military equipment to name only a few of its major applications. Specialty tubing is engineered to meet specific end-use requirements, many of which require special metallurgical, physical and mechanical properties. All of these factors, plus extensive quality control procedures demanded by the critical applications served by specialty tubing, make it a high value added steel product. This high value added characteristic is important to keep in mind when we begin to examine the import problem and the potential for product mix shifting. The solid bars that the Tubular Products Division manufactures are used primarily by the forging industry and are made into components for all types of machinery and equipment. Since hot rolled bars are the starting stock for making the more sophisticated specialty tubing, their selling price is generally considerably lower than that of specialty tubing in the same grade of steel.

In the beginning of my statement, I specifically mentioned that we market our specialty tubing and bar products only to the domestic marketplace. We have determined, after repeated attempts, that we are

unable to compete in the international marketplace because of price and because of various non-tariff barriers. As a result, we have been confined to marketing our steel products to the U.S. marketplace.

Looking to the domestic market, we see that market demand for mechanical tubing, after reaching a record peak of 1.6 million tons in 1973, has declined to a level of only 940,000 tons in 1985. Pressure tubing reached a peak market demand of 400,000 tons in 1975 and has declined drastically to a level of only 131,000 tons in 1985. Oil country tubular goods market demand reached an inflated peak of 4.2 million tons in 1981 and has been in a declining trend ever since -- dropping to the 1.3 million-ton level in 1985. The market demand I speak of for all three products has been adversely affected not only by a substantial increase in imports, both direct and indirect in the form of finished components, but also by a lowering of overall demand due to down-sizing and to a much lesser extent to substitute materials. The impact on shipments, employment and earnings at the Tubular Products Division has been devastating and we know that most other domestic specialty tubing producers are likewise sharing in these same problems.

More specifically, peak employment at our Division was reached in 1981 when 7,200 hourly and salary employees helped to produce our specialty tubing. In February of this year, just five years later, employment of hourly and salary workers at our Division totaled only 2,300. In November of 1982 we made the decision, based on our level of business, that we had to temporarily shut down our Milwaukee plant where roughly 1,000 workers were employed. In March of last year we began the distasteful task of

dismantling and disposing of the plant altogether. Thus, in a period of just five short years, approximately two-thirds of our work force have either been laid off, retired early or terminated. The unrepairable damage, not only to the laid-off workers and their families, but to each of the local communities in which our Division has manufacturing facilities cannot or ever will be fully assessed.

In no way do I wish to convey to you the impression that our Company, or the specialty tubing industry in general, has been idly sitting by watching our markets disappear. During the past decade, the Tubular Products Division of The Babcock & Wilcox Company has either committed or spent nearly 300 million dollars in new steel and tubemaking facilities -- our latest major expenditure being 80 million dollars for a new, state-of-the-art continuous caster, coupled with an ultra high-powered electric furnace and a ladle refining system. This facility began operations in the spring of 1984. Currently, some 28 million dollars are being spent at Alliance, Ohio to install a new welded tubing stretch reducing mill. Thus, along with trimming costs, we have and are doing everything possible to keep technically competitive with any specialty tubemaker in the world.

Turning now to the import problem, I wish to state that the Tubular Products Division has for many years been a close observer of the steel import situation. Back in the late 1970's, the Company's sales force began reporting that the prices they were being confronted with out in the U.S. marketplace from Japanese producers of seamless heat resisting and seamless stainless pipe and tubing were so low that they had to be below the Japanese producers' cost of production. We then set about constructing

an antidumping trade case which was accepted by the Commerce Department and the International Trade Commission on January 20, 1982. It was a lengthy, drawn-out case that was not decided until March, 1983. While our Company won the case and duty penalties were assessed, the Japanese requested and were granted a review of such imports for the previous 90-day period. The Japanese had apparently cleaned up their act from the date of the filing of our trade case and as a result of the so-called "fast-track" review by Commerce, all duty penalties were rescinded by the Commerce Department. This case cost our Company over one-half million dollars in lawyer fees and out-of-pocket costs with no obvious return and, as already mentioned, we had to finally withdraw from the stainless pipe and tubing business.

Despite this time-consuming, disappointing and costly trade case, we have continued to closely monitor imports within each of our product lines and have watched the import penetration levels on the key tonnage and higher-valued product lines rise at a steady rate -- many reaching the 30% and beyond import penetration level. We have prepared import penetration tables on each of our major product lines and these will be found in the Appendix to my statement. Of the seven product lines monitored, import penetration was higher in 1985 than in 1984 in four product lines, practically no change in another and somewhat lower in two product lines despite the fact that the President's Comprehensive Steel Import Program went into effect in October, 1984. In view of our findings relative to recent import penetration levels, the effectiveness, at least to date, of the President's Program is certainly open to serious question.

Despite the foregoing, The Babcock & Wilcox Company wishes to go on record as fully supporting the President's Program and believes its objective of lowering overall steel imports to an 18.5% level with 1.7 million tons additional allowed for semi-finished steel is critical if the domestic steel industry is to survive. However, we also believe the Program contains some significant weaknesses and shortcomings. The major problem areas, weaknesses and shortcomings associated with the Program can, in our opinion, be listed as follows:

- Seventeen months or 28% of the Program's allotted 60 months have already passed without showing solid evidence that the Program is going to reverse the flood of specialty tubing imports.
- Numerous individual steel products have no separate product quotas -- only two of the 27 countries that have entered into voluntary trade agreements with the U.S. have agreed to individual quotas for mechanical and pressure tubing. This increases the incentive to shift from lower-valued steel products to higher-valued steel products such as mechanical and pressure tubing.
- Not all countries that export significant amounts of mechanical and pressure tubing to the U.S. have agreed to voluntary trade agreements, e.g. Canada and Sweden.
- The political and economic ramifications associated with enforcement of the various voluntary trade agreements by the Commerce Department. Here I refer specifically to the numerous negotiating sessions involving the U.S. and the European Economic Community relative to importation of semi-finished steel and the various threats of retaliation against certain U.S. exports.

These are only some of the more important problems inherent in the President's Program. I'm sure the other steel industry representatives present this morning will, or already have, adequately described two other significant weaknesses or shortcomings in the President's Comprehensive

Steel Import Program. The first deals with the problems surrounding transshipments, i.e. exports to the U.S. from a quota country through a third country that has no trade agreement with the U.S. The second problem deals with circumvention of the quota system by establishing finishing facilities in a country such as Panama where steel from a quota country can be processed and then shipped quota-free and duty-free into the U.S. marketplace. If permitted to go unchecked, transshipment and circumvention can lead to significant nullification of the value to the domestic steel industry of the voluntary import quotas.

In conclusion, we would like to make several recommendations which we believe are necessary and which we believe will strengthen the President's Comprehensive Steel Import Program and they are:

- Congress should make certain that the Commerce Department strictly enforces all agreed to steel quotas and severely deals with any violations.
- Congress should encourage the U.S. Trade Representative to arrange voluntary trade agreements with all major steel exporting countries such as Canada, Sweden, Argentina and Taiwan. We need to close any and all loopholes.
- Congress should see to it that Commerce strictly enforces the provision in the trade agreements which prohibits product mix shifting. We must preclude foreign producers from shipping into the U.S. marketplace increased quantities of higher valued added products.
- Congress and the Administration should implement effective measures to prevent circumvention of the Program through diversion to non-quota countries where steel products destined for the U.S. marketplace are finished.
- Congress should accelerate efforts directed at gathering usable data on the volume of "indirect" imports of steel-containing products, i.e. autos, farm machinery, construction machinery, etc.

- Congress should encourage both the Commerce Department and the International Trade Commission to self-initiate trade cases when and where the obvious intent is to abrogate the objectives of the President's Program.

That concludes my statement; however, I would like it to be known that our Company has been active over the past four years in working closely with Commerce Department officials through the American Iron and Steel Institute's Steel Import Monitoring Task Force to provide industry assistance and advice regarding the import problem. We have also been active in supplying our thoughts and opinions in the form of letters and personal visits to the other Federal agencies including the U.S. Trade Representative's Office, the International Trade Commission and the Defense Department. We have made a special effort to keep the Navy informed concerning our situation as a supplier of specialty tubing and the potential impact of growing imports as they may affect the Navy's procurement position.

Thank you.

TABLE I

IMPORT PENETRATION
SEAMLESS CARBON MECHANICAL TUBING
 (Tons)

	Average <u>1981-83</u>	Year <u>1984</u>	Year <u>1985</u>
Domestic Shipments	156,653	119,980	101,574
Imports (Plus)	50,180	61,275	56,380
Exports (Minus)	7,112	4,742	3,852
Apparent Domestic Supply	199,721	176,513	154,102
Import Penetration (Percent)	25.1	34.7	36.6

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE II

IMPORT PENETRATION
SEAMLESS ALLOY MECHANICAL TUBING
 (Tons)

	Average <u>1981-83</u>	Year <u>1984</u>	Year <u>1985</u>
Domestic Shipments	340,454	330,576	271,795
Imports (Plus)	41,434	49,220	39,560
Exports (Minus)	14,442	13,362	11,512
Apparent Domestic Supply	367,446	366,434	299,843
Import Penetration (Percent)	11.3	13.4	13.2

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE III

IMPORT PENETRATION
WELDED CARBON MECHANICAL TUBING *

	Average <u>1981-83</u>	Year <u>1984</u>	Year <u>1985</u>
Domestic Shipments	455,418	489,630	438,246
Imports (Plus)	69,984	74,996	71,034
Exports (Minus)	18,352	27,074	23,235
Apparent Domestic Supply	507,050	537,552	486,045
Import Penetration (Percent)	13.8	14.0	14.6

(*) Includes a very small amount of welded alloy mechanical tubing.

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE IV

IMPORT PENETRATION
SEAMLESS CARBON PRESSURE TUBING
 (Tons)

	<u>Average</u> <u>1981-83</u>	<u>Year</u> <u>1984</u>	<u>Year</u> <u>1985</u>
Domestic Shipments	56,324	47,800	43,858
Imports (Plus)	29,560	36,633	20,522
Exports (Minus)	4,281	1,671	1,217
Apparent Domestic Supply	81,603	82,762	63,163
Import Penetration (Percent)	36.2	44.3	32.5

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE V

IMPORT PENETRATION
SEAMLESS ALLOY PRESSURE TUBING
 (Tons)

	<u>Average 1981-83</u>	<u>Year 1984</u>	<u>Year 1985</u>
Domestic Shipments	30,504	18,652	21,553
Imports (Plus)	35,258	9,629	12,156
Exports (Minus)	2,218	1,072	3,098
Apparent Domestic Supply	63,544	27,209	30,611
Import Penetration (Percent)	55.5	35.4	39.7

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE VI

IMPORT PENETRATION
WELDED CARBON PRESSURE TUBING *
 (Tons)

	Average <u>1981-83</u>	Year <u>1984</u>	Year <u>1985</u>
Domestic Shipments	29,682	22,305	21,812
Imports (Plus)	15,684	10,837	17,470
Exports (Minus)	4,632	2,567	1,843
Apparent Domestic Supply	40,734	30,575	37,439
Import Penetration (Percent)	38.5	35.4	46.7

(*) Includes a very small amount of welded alloy pressure tubing.

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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TABLE VII

IMPORT PENETRATION
OIL COUNTRY TUBULAR GOODS
 (Tons)

	<u>Average</u> <u>1981-83</u>	<u>Year</u> <u>1984</u>	<u>Year</u> <u>1985</u>
Domestic Shipments	2,225,961	1,406,397	1,299,157
Imports (Plus)	2,122,564	2,315,049	1,539,866
Exports (Minus)	113,959	53,067	62,211
Apparent Domestic Supply	4,234,566	3,668,379	2,776,812
Import Penetration (Percent)	50.1	63.1	55.5

Source: American Iron & Steel Institute
 U.S. Department of Commerce

March, 1986

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Mr. BARNARD. Thank you, Mr. Angell. We'll now hear from Mr. Paul J. Darling for a second.

STATEMENT OF PAUL J. DARLING, CHAIRMAN, COLD FINISHED STEEL BAR INSTITUTE, ACCOMPANIED BY MURRAY BELMAN, COUNSEL

Mr. DARLING. Thank you, Mr. Chairman. I will abbreviate my comments.

I am president of the Corey Steel Co., and chairman of the Cold Finished Steel Bar Institute. We appreciate this opportunity to appear before this subcommittee today to give you our views of the President's steel program.

We make cold finished steel bars. Our product is used in a vast number of applications, mostly as shafting in engines and other machinery, or as a feedstock for screw machine products.

Our industry has facilities in 19 States, and we normally employ over 10,000 workers. Most producers are relatively small companies, often family owned.

American cold finished bar producers were particularly hard hit by the recession of 1982-83. In 1984 domestic consumption of cold finished steel bar did rise by about 30 percent; however, at the same time imports increased by over 90 percent. By year's end imports had taken about 18.5 percent of the domestic market, compared with historical levels of under 10 percent.

For these reasons, American cold finished bar producers warmly received the announcement of the President's program. In operation, the President's program has been good news and bad news. The good news is that virtually all of the major foreign suppliers of cold finished bar to the United States have entered into voluntary restraint agreements. If these programs work, we could expect a decline in market penetration, if not to the historical levels of less than 10 percent, at least to below 15 percent.

The bad news is it took too long to implement the program. Market penetration by imports actually rose to over 20 percent during the first agreement period, October 1, 1984, through December 31, 1985.

While the negotiations progressed foreign producers flooded our markets; moreover, some countries have not abided by the specific limitations or consultation provisions.

For example, Brazil overshipped its agreed cold finished bar restraint by over 20 percent during the first agreement period.

We have been in communication with the Commerce Department on these issues, and we hope that steps will be taken to stop these overshipments and offset them against the 1986 levels.

A second major problem was the liberal treatment of imports from the European Community. For reasons we still do not understand, cold finished bars were not covered by specific restraint levels in the 1982 agreement with the EC. Instead, they were relegated to a consultation provision.

By early 1985 it was clear that the consultation levels were being exceeded in a number of categories. Nothing was done until August even though cold finished bar imports were running at twice the consultation levels for most of the period.

The final agreement permitted the Europeans to preserve the benefits of their exploitation of the negotiating process. The agreement was prospective only and none of the previous overshipments were counted against the future restraints.

We are concerned that the reward given the Europeans for their predatory behavior will not go unnoticed by other supplying countries.

A final problem with the program is the failure to cover imports from Canada. Until 1982, Canada had never supplied as much as 1 percent of our domestic market. By 1984, Canadian imports were running at about 2.3 percent of the market, and they increased to 2.7 percent during the first agreement period. In 1986, they are running over 3 percent, and indications are that the Canadians intend to increase their exports further.

We were led to believe that the Canadians had agreed informally not to take advantage of the President's program. At least for the cold finished bar industry, it is clear that that approach has failed. Canadian imports are seriously threatening the capability of the program to return imports to reasonable levels.

Finally, we face another problem that has only recently surfaced. I refer to downstream diversion, a situation that occurs when steel subject to voluntary agreements is further processed before being sent to the United States. In some cases, the downstream products are not subject to restraint. This is the case with cold finished bar where we are seeing an increase in imports of downstream articles, like screw machine products and motor parts.

The evidence we have so far shows that this problem is quite serious. While the President's program has permitted us to recover some of the domestic market for cold finished bar, we are finding that the market is itself shrinking because of imports of downstream products.

There are several bills in the Congress that would seek to deal with at least part of the downstream products problem. We urge your committee to do whatever it can to achieve the passage of those proposals.

In summary, we think that the President's program offers promise for relief, but the program will not run itself; careful monitoring of agreed levels and swift implementation of consultation provisions will be necessary if the program is to succeed. We welcome the efforts of your committee to assure that these steps will be taken.

[The prepared statement of Mr. Darling follows:]

STATEMENT BY PAUL J. DARLING, II

BEFORE THE

SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS,
HOUSE GOVERNMENT OPERATIONS COMMITTEE

APRIL 4, 1986

Thank you Mr. Chairman. My name is Paul Darling and I am President of the Corey Steel Company and Chairman of the Cold Finished Steel Bar Institute.

We appreciate this opportunity to appear before the Subcommittee today to give you our views on the operation of the President's steel program since it was announced in September, 1984.

We produce cold finished steel bars. The product is made by processing hot rolled bar or wire rod, usually by drawing it through a carbide die. Cold finished bars are used in a vast number of applications, generally in the form of bar or as a feedstock for screw machine products. They are found in virtually every product with moving parts -- all types of machinery and equipment and in cars, trucks, motors and machine tools. They are essential in numerous items of defense ordinance.

Our industry has facilities in 19 states, and we normally employ over 10,000 workers. Most producers are relatively small companies, often family owned.

American cold finished bar producers were particularly hard hit by the recession of 1982-1983. Shipments fell to levels not experienced since the Great Depression. Layoffs exceeded 50% of the work force. Monthly production averaged under 50% of capacity.

In 1984, the domestic market recovered substantially. Consumption of cold finished bar rose over 30%. Unfortunately, imports increased by over 90%. Thus, foreign suppliers got a disproportionate share of the benefits of increased American demand.

For these reasons, the announcement in September 1984, of the President's program was warmly received by American cold finished bar producers. In the first nine months of 1984,

imports had taken about 17.3% of the domestic market, and we hoped for a return to the historical levels of under 10%.

Against this background, the President's program has been good news and bad news.

The good news is that virtually all of the major foreign suppliers of cold finished bar to the United States have entered into voluntary restraint agreements. The larger suppliers have agreed to specific limits on their penetration of the domestic market. The less sizable foreign suppliers have agreed to abide by historic benchmarks that may be enforced through consultation provisions. If these programs work, we could expect a decline in market penetration, if not to the historical levels of less than 10%, at least to levels below 15%.

The bad news is:

1. It took too long to implement the program. Market penetration by imports actually rose during the first agreement period (October 1, 1984 through December 31, 1985) to 20.7%.

One reason was the difficulty of getting countries to sign agreements promptly. While the negotiations progressed, foreign producers flooded our markets. Imports for the first six months of the program exceeded 22% of consumption. Another reason was the inability of some countries to abide by the specific limitations. For example, Brazil overshipped its cold finished bar restraint by more than 20% during the first agreement period. Finally, the U.S. government did not invoke the consultation provisions when some countries substantially exceeded the benchmark levels. Korea exceeded the benchmark for cold finished bar by more than 50% and Mexico by 160%.

We have been in communication with the Commerce Department on each of these issues, and we hope that the necessary steps will be taken to stop these overshipments and offset them against the 1986 levels.

2. A second major problem was the liberal treatment of imports from the European Community. For reasons we still do not understand, cold finished bars were not covered by specific restraint levels in the 1982 agreement with the EC. Instead, they were relegated to a consultation provision that empowered the United States to invoke unilateral restraints if exports exceeded specific benchmark levels.

By early 1985 it was clear that the benchmarks were being exceeded in a number of categories. In February, the U.S. formally triggered the sixty day consultation provision in the agreement. However, the EC was permitted to delay the negotiations while their exports mounted. No agreement was reached until August, even though cold finished bar imports were running at twice the benchmark levels for most of the period.

The final agreement permitted the Europeans to preserve the benefits of their cynical exploitation of the negotiating process. The agreement was prospective only and none of the previous overshoots were counted against the future restraint levels. Moreover, the levels allowed in the formal agreement were actually higher than the benchmarks used in the 1982 agreement.

We are concerned that the reward given the Europeans for their predatory behavior will not go unnoticed by other supplying countries.

3. A final problem with the program is the failure to cover imports from Canada. Until 1982, Canadian producers had never supplied as much as 1% of our domestic market. By 1984, Canadian imports were running at about 2.3% of the market, and they increased to 2.7% during the first agreement period. In 1986, they are running over 3% and indications are that the Canadians intend to increase their exports further.

We were led to believe that the Canadians were not asked to undertake a voluntary restraint commitment, since they had agreed informally not to take advantage of the President's program. At least for the cold finished bar industry, it is clear that that approach has failed. Canadian imports are seriously threatening the capability of the program to return imports to reasonable levels.

In conclusion, I should like to refer to another problem that has recently surfaced and could threaten the objectives of the President's program. I refer to downstream diversion, a situation that develops when steel subject to voluntary agreements is further processed before being sent to the United States. In many cases, the downstream products are not subject to restraint. This has happened with cold finished bar, where we are seeing an increase in imports of downstream articles, like screw machine products, motor parts, and the like.

We have only begun to investigate the scope of this problem, but the evidence we have so far shows that it is quite serious. While the President's program has permitted us to

recover some of the domestic market for cold finished bar, we are finding that the market is itself shrinking because of imports of downstream products.

There are several bills in the Congress that would seek to deal with at least part of the downstream products problem. We urge your committee to do whatever it can to achieve the passage of those proposals.

In summary, we think that the President's program offers promise for relief. But the program will not run itself; careful monitoring of agreed levels and swift implementation of consultation provisions will be necessary if the program is to succeed. We welcome the efforts of your committee to assure that these steps will be taken.

Mr. BARNARD. Thank you. You've really anticipated the two questions that I had to ask both of you. You do feel though while the President's program seems to be working, that you would be a lot more comfortable with it if it was actually in the law, and that Congress actually passed a law that would put the President's program into the law?

Mr. ANGELL. I think we would agree with that, along with being more specific as far as the items that are coming into the country. Identification.

Mr. DARLING. Mr. Chairman, I think that basically what I would like to see is for the administration to hold these offshore supplying countries accountable to the agreements to which they have agreed, that they've signed.

In 1982 when we had entered into an agreement with the European Economic Community these people were allowed to exceed the levels contained within the agreement, and when the administration attempted to hold them accountable for their actions, as Mr. Angell had pointed out, they threatened retaliatory action. In effect, it was extremely difficult for us to hold them accountable.

I think that if the steel industry is satisfied with the levels contained in these various agreements, what we have to do is make sure that those are the levels that are adhered to.

Mr. BARNARD. Aren't you somewhat concerned though that as this program moves on and nothing is done further, as you talked about monitoring, the next thing you know we're going to wake up and find out that we may have not monitored the program sufficiently, and that all that we have done has not been reversed, but at least we will find that the imports have increased?

Mr. ANGELL. No question about it, and we—one fact that was not mentioned in my testimony that should be worth mentioning, is that today in the domestic specialty tubing industry there are only two full-line producers, which Babcock & Wilcox is one. The Timken Co. is the other.

Mr. BARNARD. Mr. Erdreich.

Mr. ERDREICH. Thank you, Mr. Chairman. Following up on the idea of monitoring it, and really enforcement, have either of you had direct involvement with the Customs Service? Do you have any personal view of how they're doing in monitoring and enforcing the current program?

Mr. DARLING. I've had no personal experience with the Customs Service. The only point that I would have is that it seems to be statistical information that we so desperately need in order to evaluate these imports. Information is not available in a relatively short period of time. It takes often months in order to obtain import information. The more expeditiously this information can be collected and recorded for those who need it, what a help it would be.

Mr. ERDREICH. Mr. Angell, do you have any—

Mr. ANGELL. Mr. Walker's knowledgeable on this. Perhaps he could comment.

Mr. ERDREICH. OK.

Mr. WALKER. Well, what I might mention, Congressman, is that I am a member of the AISI Customs Service Task Force, and our main objective is to work with Customs in any way possible to

detect fraud, but also through educating them on the various types and grades of steel.

They are steel specialists. We don't have enough, and I think maybe under the Gramm-Rudman Act we may be in more trouble with getting additional steel specialist inspectors on the various jobs, but we would like you to know that the AISI does sponsor these seminars in which we actually go out to the Customs people and run seminars, 2 or 3 days to educate them on various steel products. And we are very interested and proud of the way they are performing with the means that they have. They don't have all of the sophisticated equipment they require.

Indeed, in fact, we are going to be shortly taking out some ASTM technical bulletins and books to them so that they can become better informed. So we are working very closely with them.

Mr. ERDREICH. What's the duration of time that you all have in place as far as your committee activity?

Mr. WALKER. Approximately a year.

Mr. ERDREICH. And part of what we're doing here in the oversight is try to get some idea where we can improve both in enforcement, and I think clearly from your testimony, and earlier panels, the need for comprehensive legislation has been reiterated time and again. And I subscribe to that.

On the enforcement side, for example, I've been informed that it may be 1 in 10 shipments, or maybe fewer than that, that are actually weighed to determine precisely the content and amount of tonnage coming in. Is that accurate, or what is your impression?

Mr. WALKER. That's what I understand, Congressman. Very little of it is looked at physically, and, of course, we do have a problem of a nonsteel person identifying correctly what the tube is. For example, there's a difference between physically looking at the metal versus viewing it with the naked eye.

Mr. ERDREICH. If we're operating enforcement on the honor system, these trading partners are, I suspect, nice folk, but they're really trading adversaries, and I would hope that we could have a little better enforcement. I appreciate your testimony. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Ridge.

Mr. RIDGE. Thank you, Mr. Chairman.

Either as representatives of trade organizations, or trade associations, or I think there was some testimony Mr. Angell, you were involved in an antidumping case, I would like the benefit of your collective experiences, and of counsel as well, as to the role that Commerce or USTR played in assisting you to assimilate the information you needed to prosecute the case, to promote your case. I just have a sense that when we take a look at 201's and 301's, and the kinds of legal relief available to the industry, it is initiated primarily by you. You are called upon as an industry or a company to secure evidence independently of any Government assistance. At least that's my belief.

Could you comment on the use or availability of information that you needed to promote your interest, your case, through the appropriate Government agency? Are they adversarial? Are they neutral? Are they helpful? Are they not?

Mr. ANGELL. I think the attitude—in our experience, was both costly and not very productive even though we won the dumping case as far as the stainless steel was concerned. It went to a fast track procedure of which the 90 days preceding the decision were reviewed rather than looking at it over the years we had suffered under the dumping conditions.

And the final conclusion was that there would be no penalties assessed. The final conclusion as far as B&W is concerned is we're out of business. We have temporarily suspended operations because of all the products that we manufacture, that product has been more heavily impacted by foreign pricing levels than anything else that we have. And the attitude of the people that we talked to in Washington in initiating this, and both Mr. Walker and I were personally involved, is that you're guilty until proven innocent. I mean, you get absolutely no assistance to speak of. We had to do everything ourselves. As I mentioned, it cost us half a million dollars in legal fees, and a lot of time was consumed by our people involving testimonies, and writing up papers, and submitting it to the International Trade Commission, and so forth.

So, I would say that the attitude was very, very poor, and we were looked upon as creating the problem rather than trying to solve the problem.

Mr. RIDGE. Thank you. Mr. Darling.

Mr. DARLING. I would like to ask Mr. Belman, to comment specifically on these issues pertaining to the trade cases, since he was intimately involved.

Mr. RIDGE. Go ahead.

Mr. BELMAN. Mr. Ridge, I think I'd make two points. One is that while the Congress in the 1984 Trade Act did intend, I believe, to establish Government assistance particularly for smaller companies bringing trade cases, I think it's fair to say that has not worked in any meaningful way. The information is really not available, and the only time you get information is when you do a lot of legwork on your own. Once the case is brought Commerce tends to follow up and submit questionnaires to the respondents, but you don't have much going in.

Second, is that I think the point which you made is an important one: The extent to which the Government is required to self-initiate actions. We are supporting legislation as part of a Trade Reform Action Coalition, to establish Government responsibility to monitor this downstream issue, and in appropriate circumstances, which are described in the legislation, to self-initiate either dumping or countervailing duty cases.

And it's that kind of thing, placing the burden more on the Government to act itself, that might at least go part way to help with these problems, particularly in the downstream area.

Mr. RIDGE. Thank you. One final quick question.

We've talked a lot about the availability of our domestic markets, and import penetration. Would either of you care to comment on the inaccessibility of foreign markets to your efforts and to export, and what obstacles you run into in the international marketplace?

Mr. ANGELL. We put together a very detailed program roughly 2½ years ago to try to sell specialty steel to and in Japan. And we

never made the trip to Japan. We contacted the people; we worked with the people in Japan. We sent information. We got data on customers, and so forth, and we were told that the product would not be acceptable, and that we would not be able to sell it.

Mr. DARLING. Our experiences were much the same. We had been exporting a particular pure iron product to Asia, and when we attempted to expand our exports, we found that the product was not welcome. If we had seized upon the initiative to export the product, it would not have been unloaded.

Mr. RIDGE. But what justification or rationale? It was unwanted and it was unacceptable. Why?

Mr. ANGELL. That they will find a way that the product will not be acceptable.

I mean, you can come over and you can make the calls, but you will not end up selling the product. And we had consultants that we'd hired in Japan who had put together lists of names within companies that we could call on so that we knew the key purchasing people, the key engineers, those kinds of people, and they also gave us their rates for so-called chauffeuring us around, and would see to it that we could meet these people, but they flat out told us that we're simply just wasting our time and our money.

Mr. RIDGE. Thank you very much.

Mr. BARNARD. Would you yield?

Mr. RIDGE. Yes, sir, Mr. Chairman.

Mr. BARNARD. The associations to which you belong, and your particular specialty, other members, have they had the same experience that you have had as far as trying to reach these foreign markets?

Do you know of any success stories? In other words, are there any success stories where—of anybody selling—exporting?

Mr. ANGELL. I think if you look at the AISI figures on what's being exported out of the United States, that probably will give you a good feel for very little, if anything, is leaving here. I don't think there are any success stories particularly today.

Mr. BARNARD. That's a question I guess we would ask of the other witnesses who have been before us today to see if we can find any success stories. That would be very interesting if we can.

Any further questions?

Mr. RIDGE. No, thank you, Mr. Chairman.

Mr. ERDREICH. No, Mr. Chairman.

Mr. BARNARD. Well, gentlemen, we really do appreciate your being here. I again want to reiterate my appreciation for the patience you've shown in being here all day. That was an arduous task, I'm sure. But we do appreciate it, and your testimony is very valuable to us. Very possibly we will be submitting further questions to complete some of the—part of our record.

Mr. ANGELL. Fine.

Mr. BARNARD. Thank you very much.

Mr. DARLING. Thank you, Mr. Chairman.

Mr. BARNARD. With that, the subcommittee is adjourned.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]